

Taglich Brothers, Inc.

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RESEARCH UPDATE

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UFP Technologies, Inc.

UFPT--\$3.31 (NASDAQ)

	<u>FY1997</u>	<u>FY1998</u>	<u>FY1999E</u>	<u>FY2000E</u>	<u>FY2001E</u>
Revenues (millions)	\$45.5	\$47.2	\$57.5	\$73.5	\$78.8
Earnings per share	\$0.27	\$0.34	\$0.31	\$0.36	\$0.49
P/E Ratio	---	---	10.7x	9.2x	6.8x
52-Week Range	4.75—2.25		ROE(FY1999E)		9.5%
Shares Outstanding-fully diluted	4.5 million		Fiscal Year Ends		December
Avg. Daily Trading Vol. (December)	11,750		Sales/Share FY1999E		\$12.75
Institutional Holdings	21.2%		Price/Sales FY1999E		0.26x
Insider Holdings	43.5%		Approximate Float (shares)		1.2 million

UFP Technologies is a leading U.S. manufacturer of custom-designed cushion foam packaging and specialty foam packaging products and engineered specialty foam and laminated products. The company is the North American leader in 100% recycled molded-fiber packaging products that offer an environmentally responsible alternative to plasti-based packaging products in the high-volume consumer packaging market.

Historically, UFPT has averaged a P/E multiple of 16.0x and a Total Enterprise Value to EBITDA multiple of 7.0x. Our peer group of companies in paper- and plastic-based packaging is currently trading at an average of 13.0x trailing earnings and 6.5x trailing TEV/EBITDA. UFPT is currently trading at historically low multiples of earnings and cash flow and at a discount to our chosen peer group with multiples for P/E and TEV/EBITDA at 9.2x and 4.6x, respectively, of our projected 2000 estimates and 6.8x and 3.7x, respectively of our projected 2001 estimates.

We look for the company to continue its thrust into the laminated foam automotive market. We also see internal growth in packaging as UFPT leverages its existing customer base and improves molded fiber's versatility, including adapting it for lower volume applications.

Valuing UFPT at 12.0x to 13.0x our estimated mid-point 2001 earnings per share leads us to an eighteen-month target price of \$5.00 to \$6.00 per share, which puts the company at only 5.0x TEV/EBITDA, which is quite lower than historical and peer group values.

The information and statistical data contained herein have been obtained from sources which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to change in figures or our views. This is not a solicitation of any order to buy or sell. We, our affiliates, and any officer, director or stockholder, or any member of their families, may have a position in and may from time to time purchase or sell any of the above-mentioned or related securities. Since February 2000, the company pays a monthly monetary fee of \$1,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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Company Recap

UFP Technologies is a leading U.S. manufacturer of custom-designed cushion foam packaging and specialty foam packaging products and engineered specialty foam and laminated products. The company is the North American leader in 100% recycled molded-fiber packaging products that offer an environmentally responsible alternative to plasti-based packaging products in the high-volume consumer packaging market. The company's business can be classified into two segments: Packaging products and Specialty products.

Packaging Products. UFPT provides a wide array of protective foams and rigid plastics packaging products, ranging from automotive material handling components to thermoformed medical packaging to complex cases and inserts. These products are custom designed and fabricated or molded to provide optimum protection for less durable, higher value items, and are primarily sold to original equipment and component manufacturers in the computer, electronics, telecommunications, industrial, medical and pharmaceutical industries.

The company is a market leader in molded fiber packaging for computers, peripherals, and light electronics. Raw material costs for molded fiber are low, consisting of recycled paper (primarily newspaper) and water. Molded fiber competes against various molded, rigid and foamed plastics and corrugated die-cut inserts as an alternative material in the high volume consumer packaging market.

Revenues for packaging products totaled \$33.0 million in 1998. Customers for the company's molded fiber products include Hewlett-Packard, Canon, Iomega and Motorola, Johnson & Johnson, AT&T, and IBM.

Specialty Products. This division provides high performance foam, fabric, and plastic composite products that utilize the company's expertise in various foam materials and lamination techniques and are sold to the automotive, medical, sports and leisure, and industrial markets. Products include automotive interior door panels, headliners and trunkliners, backpack harness systems, medical braces and footwear insoles. Revenues in this division totaled \$14.2 million in 1998.

In November 1998, UFPT acquired Pacific Foam, a manufacture of specialty foam products used in the health and beauty market, for roughly \$3.5 million. The acquisition is expected to account for approximately \$8.0 million in revenues in 1999. Pacific Foam, based in Ventura, California, gives the company a strategic west coast presence.

New Developments

UFPT has received a 4-year, \$12 million contract from the Woodbridge Group for head impact protection for Ford Motor co.'s Taurus/Sable. UFPT laminates fabric to Woodbridge's Enerflex foam and molds it into shape. This contract represents UFPT's largest automotive specialty foam contract to date, providing a predictable revenue stream over a multi-year period. It also establishes the company's capabilities and expertise in the large automotive specialty foam market. We see additional opportunity in this market segment as new federal regulations addressing occupant safety make laminated foam mandatory, replacing traditional fabric. We expect UFPT to continue specialty foam's strategic thrust in the automotive market and pursue more contracts in 2000.

On January 17, 2000, UFPT announced the acquisition of Simco Industries, a full service supplier of automotive trim components with sales of approximately \$13.0 million annually, for roughly \$5.6 million in cash, subject to adjustment. Currently a customer of UFPT, Simco incorporates the company's laminated foam in its proprietary Superformed process to mold foam-backed materials into three-dimensional shapes. The company believes that Simco offers numerous synergies and will look to integrate lamination and molding into a seamless one-step process. UFP will consolidate its automotive sales and marketing efforts into Simco's Detroit area location.

We see this acquisition as a key strategic move for UFPT. First, it adds a technology that the company believes is unique and significant in automotive foam. Second, it allows UFPT to offer a broader range of foam products. Third, it increases the number and quality of the company's automotive customers, further enhancing its presence in this market. However, we are not projecting any bottom-line contribution from Simco this year as the company integrates its operations. Additionally, we believe that UFPT can reap future add-backs from cost cutting and pricing improvements. The company believes that Simco will be accretive to earnings in fiscal 2001.

Recent Results

In the third quarter UFPT had revenues of \$14.4 million and net income of \$301 thousand, or \$0.06 per share, versus revenue of \$12.7 million and net income of \$492 thousand, or \$0.10 per share in the quarter last year. Revenues were largely impacted by the Pacific Foam acquisition, which contributed little to the bottom-line. The third quarter earnings were below expectations as the company incurred significant one-time start-up expenses associated with the Woodbridge contract. Last year's quarter included a one-time \$1.0 million order.

Projections

We see a rebound in the fourth quarter as shipments to Woodbridge began in October, absent the associated start-up costs seen in the third quarter. We project revenues of \$14.7 million and earnings per share of \$0.11 in the fourth quarter, and \$57.5 million and \$0.31 for 1999.

For fiscal 2000, we see revenues growing 27%, to \$73.5 million, with approximately \$10.0 million in revenues attributed to the Simco acquisition. We project earnings per share growth of 14%, to \$0.36. Our EPS estimate reflects the repurchase of 12% of the company's shares this past December that we estimate will be \$0.03 per share accretive. We are projecting results improving through the year, reflecting the integration of Simco, estimating \$0.26 per share in earnings overall in the third and fourth quarters. We project EBITDA of about \$6.2 million in 2000, or a 13% increase.

We are establishing estimates for 2001 and project revenues of approximately \$78.9 million and earnings per share growth of 37%, to \$0.49, as UFPT should experience strong operating leverage at that revenue level. Our assumptions include low double-digit growth (12%) at Simco, with much improved bottom-line contribution. We are assuming single digit growth in UFPT's remaining segments, not including any Woodbridge-type contracts. We see EBITDA increasing to \$7.1 million.

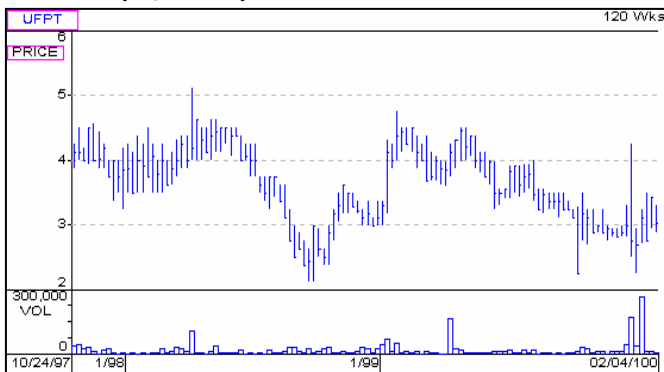
Outlook

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Valuing UFPT at 12.0x to 13.0x our estimated 2001 mid-point earnings per share leads us to an eighteen-month target price of \$5.00 to \$6.00 per share, which puts the company at only 5.0x TEV/EBITDA, which is lower than historical and peer group values.

Chart Courtesy Quotron Systems.



UFP Technologies, Inc.
Yearly Income Statement Model
(In Thousands)

	<u>FY1997</u>	<u>F1998</u>	<u>F1999E</u>	<u>F2000E</u>	<u>F2001E</u>
Packaging Revenues	\$ 30,987	\$ 33,001	\$ 32,810	\$ 34,900	\$ 37,692
Specialty Revenues	14,465	14,218	24,699	38,650	41,095
Total Revenues	45,452	47,220	57,510	73,550	78,787
Costs of Goods Sold	33,200	34,140	42,920	56,092	59,642
Gross Profit	12,252	13,080	14,590	17,458	19,145
<i>Gross Margins</i>	26.96%	27.70%	25.37%	23.74%	24.30%
S,G&A	9,318	9,906	11,336	13,690	14,450
Operating Income	2,934	3,174	3,254	3,768	4,695
<i>Operating Margin</i>	6.46%	6.72%	5.66%	5.12%	5.96%
Interest Expense-net	630	447	636	1,065	1,025
Other-net	-	(60)	-	-	-
Pre-Tax Income	2,304	2,787	2,618	2,703	3,670
<i>Pre-Tax Margins</i>	5.07%	5.90%	4.55%	3.68%	4.66%
Taxes (Benefit)	995	1,141	1,055	1,081	1,468
<i>Tax Rate</i>	43.19%	40.94%	40.32%	40.00%	40.00%
Net Income	\$ 1,309	\$ 1,646	\$ 1,563	\$ 1,622	\$ 2,202
EPS-fully diluted	\$ 0.27	\$ 0.34	\$ 0.31	\$ 0.36	\$ 0.49
Avg. Shares Out-fully diluted	4,863	4,819	4,975	4,500	4,500
<u>Percent of Revenue</u>					
Costs of Goods Sold	73.04%	72.30%	74.63%	76.26%	75.70%
SG&A	20.50%	20.98%	19.71%	18.61%	18.34%
Net Margin	2.88%	3.49%	2.72%	2.21%	2.79%
<u>Year / Year Growth</u>					
Total Revenues	15.48%	3.89%	21.79%	27.89%	7.12%
Operating Income	40.11%	8.18%	2.52%	15.80%	24.59%
Pre-Tax Income	38.13%	20.96%	-6.06%	3.26%	35.76%
Net Income	3.72%	25.74%	-5.07%	3.80%	35.76%

Total Debt-net of Cash	\$ 6,525	\$ 6,672	\$ 9,820	\$ 13,470	\$ 11,456
Market Capitalization	16,109	15,963	16,480	14,906	14,906
Total Enterprise Value (TEV)	\$ 22,634	\$ 22,635	\$ 26,299	\$ 28,376	\$ 26,362
EBITDA	\$ 4,736	\$ 5,074	\$ 5,458	\$ 6,203	\$ 7,145
<i>Year / Year Growth</i>	31.8%	7.1%	7.6%	13.7%	15.2%
TEV / EBITDA Multiple	4.78	4.46	4.82	4.57	3.69
Share Price @ 5.0X TEV / EBITDA	\$3.53	\$3.88	\$3.51	\$3.90	\$5.39
Share Price @ 6.0X TEV / EBITDA	\$4.50	\$4.93	\$4.61	\$5.28	\$6.98
Share Price @ 7.0X TEV / EBITDA	\$5.48	\$5.99	\$5.71	\$6.66	\$8.57
Share Price @ 10.0X Earnings	\$2.69	\$3.42	\$3.14	\$3.60	\$4.89
Share Price @ 12.0X Earnings	\$3.23	\$4.10	\$3.77	\$4.33	\$5.87
Share Price @ 15.0X Earnings	\$4.04	\$5.12	\$4.71	\$5.41	\$7.34

UFP Technologies, Inc.
Fiscal 1999 Income Statement Model
(In Thousands)

	<u>Q1A</u>	<u>Q2A</u>	<u>Q3A</u>	<u>Q4E</u>	<u>F1999E</u>
Packaging Revenues	\$ 7,553	\$ 8,859	\$ 8,198	\$ 8,200	\$ 32,810
Specialty Revenues	<u>5,922</u>	<u>6,035</u>	<u>6,242</u>	<u>6,500</u>	<u>24,699</u>
Total Revenues	13,476	14,894	14,440	14,700	57,510
Costs of Goods Sold	<u>10,050</u>	<u>11,200</u>	<u>10,920</u>	<u>10,750</u>	<u>42,920</u>
Gross Profit	3,426	3,694	3,520	3,950	14,590
<i>Gross Margins</i>	25.42%	24.80%	24.38%	26.87%	25.37%
S,G&A	<u>2,809</u>	<u>2,771</u>	<u>2,856</u>	<u>2,900</u>	<u>11,336</u>
Operating Income	617	923	664	1,050	3,254
<i>Operating Margin</i>	4.58%	6.20%	4.60%	7.14%	5.66%
Interest Expense-net	123	190	163	160	636
Other-net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pre-Tax Income	494	733	501	890	2,618
<i>Pre-Tax Margins</i>	3.67%	4.92%	3.47%	6.05%	4.55%
Taxes (Benefit)	<u>203</u>	<u>292</u>	<u>200</u>	<u>360</u>	<u>1,055</u>
<i>Tax Rate</i>	41.09%	39.84%	39.92%	40.50%	40.32%
Net Income	<u>\$ 291</u>	<u>\$ 441</u>	<u>\$ 301</u>	<u>\$ 530</u>	<u>\$ 1,563</u>
EPS-fully diluted	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.06</u>	<u>\$ 0.11</u>	<u>\$ 0.31</u>
Avg. Shares Out-fully diluted	<u>4,910</u>	<u>5,007</u>	<u>4,905</u>	<u>4,800</u>	<u>4,975</u>
<u>Percent of Revenue</u>					
Costs of Goods Sold	74.58%	75.20%	75.62%	73.13%	74.63%
SG&A	20.84%	18.60%	19.78%	19.73%	19.71%
Net Margin	2.16%	2.96%	2.08%	3.60%	2.72%
<u>Year / Year Growth</u>					
Packaging Revenues	0.63%	9.72%	-9.42%	-2.03%	-0.58%
Specialty Revenues	82.55%	86.04%	72.91%	57.77%	73.72%
Total Revenues	25.36%	31.60%	14.04%	17.69%	21.79%
Operating Income	17.30%	22.09%	-29.81%	10.99%	2.52%
Pre-Tax Income	19.04%	17.47%	-39.42%	-3.37%	-6.06%
Net Income	20.75%	19.84%	-38.82%	-2.83%	-5.07%

UFP Technologies, Inc.
Fiscal 2000 Income Statement Model
(In Thousands)

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>F2000E</u>	<u>F2001E</u>
Packaging Revenues	\$ 8,250	\$ 9,050	\$ 9,000	\$ 8,600	\$ 34,900	\$ 37,692
Specialty Revenues	9,250	9,650	9,700	10,050	38,650	41,095
Total Revenues	17,500	18,700	18,700	18,650	73,550	78,787
Costs of Goods Sold	13,594	14,373	14,139	13,987	56,092	59,642
Gross Profit	3,906	4,327	4,561	4,663	17,458	19,145
<i>Gross Margins</i>	22.32%	23.14%	24.39%	25.00%	23.74%	24.30%
S,G&A	3,450	3,440	3,400	3,400	13,690	14,450
Operating Income	456	887	1,161	1,263	3,768	4,695
<i>Operating Margin</i>	2.61%	4.75%	6.21%	6.77%	5.12%	5.96%
Interest Expense-net	280	275	265	245	1,065	1,025
Other-net	-	-	-	-	-	-
Pre-Tax Income	176	612	896	1,018	2,703	3,670
<i>Pre-Tax Margins</i>	1.01%	3.28%	4.79%	5.46%	3.68%	4.66%
Taxes (Benefit)	71	245	358	407	1,081	1,468
<i>Tax Rate</i>	40.00%	40.00%	40.00%	40.00%	40.00%	40.00%
Net Income	\$ 106	\$ 367	\$ 538	\$ 611	\$ 1,622	\$ 2,202
EPS-fully diluted	\$ 0.02	\$ 0.08	\$ 0.12	\$ 0.14	\$ 0.36	\$ 0.49
Avg. Shares Out-fully diluted	4,500	4,500	4,500	4,500	4,500	4,500
<u>Percent of Revenue</u>						
Costs of Goods Sold	77.68%	76.86%	75.61%	75.00%	76.26%	75.70%
SG&A	19.71%	18.40%	18.18%	18.23%	18.61%	18.34%
Net Margin	0.60%	1.97%	2.87%	3.28%	2.21%	2.79%
<u>Year / Year Growth</u>						
Packaging Revenues	9.23%	2.16%	9.78%	4.88%	6.37%	8.00%
Specialty Revenues	56.20%	59.90%	55.40%	54.62%	56.48%	6.33%
Total Revenues	29.86%	25.55%	29.50%	26.87%	27.89%	7.12%
Operating Income	-26.03%	-3.85%	74.85%	20.32%	15.80%	24.59%
Pre-Tax Income	-64.29%	-16.45%	78.84%	14.43%	3.26%	35.76%
Net Income	-63.63%	-16.67%	78.60%	15.39%	3.80%	35.76%