

# Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

## Research Report - Update

**UFP Technologies, Inc.**

**Rating: Speculative Buy**

**UFPT \$1.25 — (NASDAQ SC)**

John Nobile  
March 15, 2002

	FY (2000)	FY (2001)*	FY (2002)E	FY (2003)E
Revenues (millions)	\$74.5	\$61.6	\$67.0	\$75.0
Earnings per share (diluted)	\$0.25	\$(0.72)	\$0.02	\$0.26

52week range	\$0.21 – \$2.25	Fiscal year ends:	December
Shares outstanding (millions)	4.2	Revenue per share (TTM)	\$14.49
Trading float (millions)	2.5	Price/Sales (TTM)	0.08X
Insider + 5% ownership	41%	Price/Sales (2003)	0.07X
Est. tangible book value/share	\$1.83	Price/Earnings (TTM)	NA
Price/ est. tangible book	0.68X	Price/Earnings (2003)	4.81X

\*Includes a \$1 million restructuring charge.

*UFP Technologies is a designer and manufacturer of a broad range of high performance cushion foam and molded fiber products, and specialty foam and plastic products for the industrial and consumer markets. These products are custom designed and fabricated or molded to provide protection for fragile and valuable items, and are sold primarily to original equipment manufacturers in the computer, electronics, telecommunications, industrial, medical and pharmaceutical markets. ([www.ufpt.com](http://www.ufpt.com))*

### **Key investment considerations:**

- *We are maintaining our speculative buy rating for shares of UFP Technologies (UFPT) and setting a 24-month price target of \$3.50 per share.*
- *For the fiscal year ended December 31, 2001, UFP Technologies net sales decreased 17% to \$61.6 million from \$74.5 million in 2000. The net loss was \$3.0 million or \$(0.72) per share versus net income of \$1.1 million or \$0.25 per share in 2000. Results for fiscal 2001 include a \$1 million restructuring charge for the consolidation of manufacturing operations.*
- *We believe the outlook for the Company in fiscal 2002 is much improved when you consider:*
  - *the full year affect of the automotive programs that were launched late last year;*
  - *the contribution from the soon to be completed integration of Excel Acquisition Group;*
  - *the rollout of the newly acquired e-cube product line;*
  - *additional automotive programs expected to be launched throughout 2002; and,*
  - *an economy that should recover this year resulting in improved demand for UFPT's products.*
- *For 2002, we estimate sales will increase 9% to \$67 million and UFP technologies will post earnings of \$90,000 or \$0.02 per share. For 2003, we estimate sales will increase 12% to \$75 million and net earnings will increase to \$1.1 million or \$0.26 per share.*

*\*Please view our disclaimer located at the end of the text portion of this report.*

1370 Avenue of the Americas, 31st Floor, New York, N.Y. 10019  
(800) 456-1220 • Fax (212) 265-4744  
[www.taglichbrothers.com](http://www.taglichbrothers.com)

### ***Recent Financial Results***

For the fiscal year ended December 31, 2001, versus the same period in 2000:

- Net sales decreased 17% to \$61.6 million from \$74.5 million.
- Gross margins decreased to 17.7% from 23.7%.
- SG&A expenses decreased by 4.1% to \$13.6 million from \$14.2 million.
- The net loss was \$3.0 million or \$(0.72) per share versus net income of \$1.1 million or \$0.25 per share.

Results for fiscal 2001 include a \$1 million restructuring charge taken in the fourth quarter for the consolidation of manufacturing operations. Excluding the charge, we believe the net loss for the year would have been \$2.1 million or \$(0.48) per share. In comparison, Taglich Brothers' estimates called for fiscal 2001 net sales of \$60.4 million and a net loss of \$2.1 million or \$(0.50) per share.

The reduced demand for the Company's products was the result of many of its key customers experiencing sharp downturns in their businesses. In an effort to offset the weak demand, the Company instituted cost cutting measures in 2001. These cost cutting measures resulted in lower manufacturing costs through plant consolidations and reduced SG&A expenses through a reduction in the workforce. However, the cost cutting measures were not enough to maintain profitability given the large decrease in sales. UFPT plans to complete the plant consolidations in the first quarter of fiscal 2002.

We estimate that as of December 31, 2001, UFPT had cash of approximately \$95,000 and an estimated tangible book value of \$1.83 per share. The Company has working capital of \$977,000 and a long-term debt-to-equity ratio of 0.5X. We believe that there is approximately \$3 million available on the \$10 million revolving line of credit. Of significance is the last reported goodwill balance of \$6.4 million. Under the new accounting standard, SFAS 142, this goodwill balance, if considered impaired, could result in UFP Technologies taking a large write off against operating income. This should result in the Company taking a large loss in the period they take the charge, but in the long-term, should result in an increase in net income and taxes and could result in a decrease in cash flow.

Because the Company has no significant capital commitments, we expect capital expenditures will be in line with past spending rates. We believe the Company's working capital, projected cash from operations and available borrowings through its line of credit will be sufficient to support operations for the next twelve months.

### ***Outlook***

We have a positive outlook for UFP Technologies in the coming year. The downward trend in revenue appears to have ended. The fourth quarter results showed an improvement over the third quarter after you factor out the fourth quarter restructuring charge. Fourth quarter revenue increased by 9% over the third quarter of 2001. This is the first time revenue has increased after five straight quarters of declines. 2002 appears to have a solid foundation on which to support an upward trend in revenue.

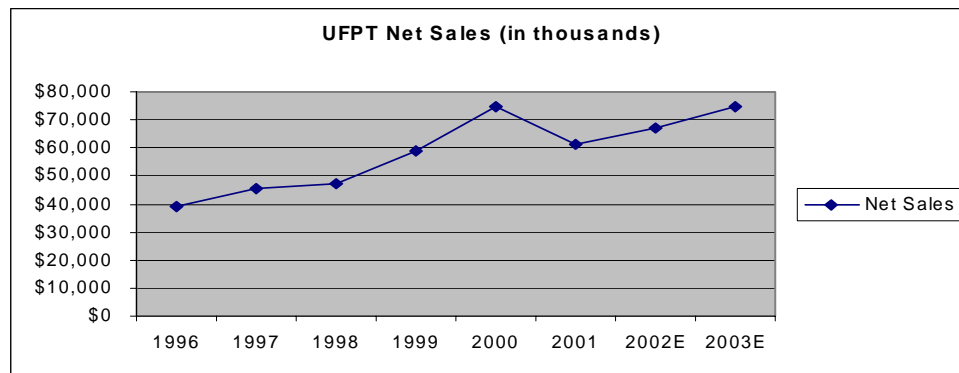
In the first quarter of fiscal 2002, the Company plans to complete the plant consolidations and integrate the recently acquired custom foam packaging manufacturer, Excel Acquisition Group into its existing plant in Alabama. Because of the consolidation, we believe that expenses will be inflated in the first quarter but return to normal rates once the consolidation is complete. The acquisition of Excel is expected to add over \$2 million annually to UFPT's revenue.

By mid-year of 2002, the Company plans to rollout its e-cube product line that was acquired from E-Tech Inc. last November. E-cubes are environmentally friendly molded fiber cubes used for loose fill packaging. The environmental benefits of molded fiber come from the fact that molded fiber is manufactured from 100% recycled newsprint.

Throughout fiscal 2002, UFP Technologies plans to launch more automotive programs. The automotive programs that were launched late last year are expected to generate over \$5 million annually. We expect the new automotive program launches to moderately add to revenue throughout the year.

2001 was a year in which the weak economy resulted in reduced demand for UFPT's products. However, we believe the economy will recover this year resulting in improved sales of computer/electronics products and strong demand for the materials used to package these products. Recent reports support our expectations for an economic rebound in 2002. In March 2002, Federal Reserve Bank of Philadelphia President Anthony Santomero said the stage was set for a U.S. economic recovery in 2002. Santomero forecast that the U.S. economy would post growth rates in the range of 3 to 4 percent in the second half of 2002 and that such a moderate pace of growth should keep inflationary pressures under control. Also, in March 2002, U.S. Treasury Secretary Paul O'Neill said that economic fundamentals are moving back into place in the United States and predicted growth rates will gradually increase in 2002 to reach an annual rate of 3 to 3.5 percent by year end. O'Neill added that 2003 should see substantial growth for the U.S. economy. Finally, in March 2002, Federal Reserve Chairman Alan Greenspan expressed confidence that an economic expansion is well under way and that economic growth will likely be moderate.

According to First Call, average industry (containers and packaging) earnings are expected to increase by 50% in 2002 and 38% in 2003. We believe this shows that demand for packaging products is expected to improve over the next couple of years. Taking into account the industry and economic projections, along with the Company's outlook for 2002, we estimate UFPT sales will increase 9% to \$67 million in 2002 and the Company will report earnings of \$90,000 or \$0.02 per diluted share. For 2003, we estimate sales will increase 12% to \$75 million and net earnings will increase to \$1.1 million or \$0.26 per share.



We believe that the recent cost cutting measures will result in a more efficient Company and moderately reduced SG&A expenses in 2002. However, in 2003 we believe that UFP Technologies will need to increase their SG&A spending as the current level of capacity will not be able to handle the increase in net sales that we anticipate. Applying the historic price/earnings multiple of 13X to our projected earnings per share of \$0.26 for 2003, we arrive at a 24-month price target of \$3.38 per share.

In addition, we used a discounted cash flow model using EBITDA as a proxy for cash flow and derived a discount rate of 6.8% using the Capital Asset Pricing Model. This model values shares of UFPT at a price of \$3.67. Averaging these two valuation models puts our anticipated 24-month price target for shares of UFPT at \$3.50.

**Comparable Company Analysis**

Company Name	Symbol	Price	Market Cap (\$M)	Price/Earnings	Price/Sales	Price/Book
Graphic Packaging	GPK	\$5.15	165	NA	0.1	0.3
Peak International	PEAK	\$7.52	95	NA	2	1
Polyair Inter Pack	PPK	\$3.70	23	14	0.2	1.2
Carmel Container Systems	KML	\$4.80	12	NA	0.2	NA
Air Packaging Tech.	AIRP	\$0.55	7	NA	3.9	NA
RADVA Corporation	RDVA	\$0.25	1	22	0.1	0.2
<b>Average</b>			50	18.0	1.1	0.7
<b>UFP Technologies</b>	<b>UFPT</b>	<b>\$1.25</b>	5	NA	0.1	0.3

**Risks**

*Liquidity*

With only 4.2 million shares outstanding and 2.5 million in the float, liquidity issues must be considered. Average daily volume is less than 3,000 shares and there are many days when the stock does not trade at all. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

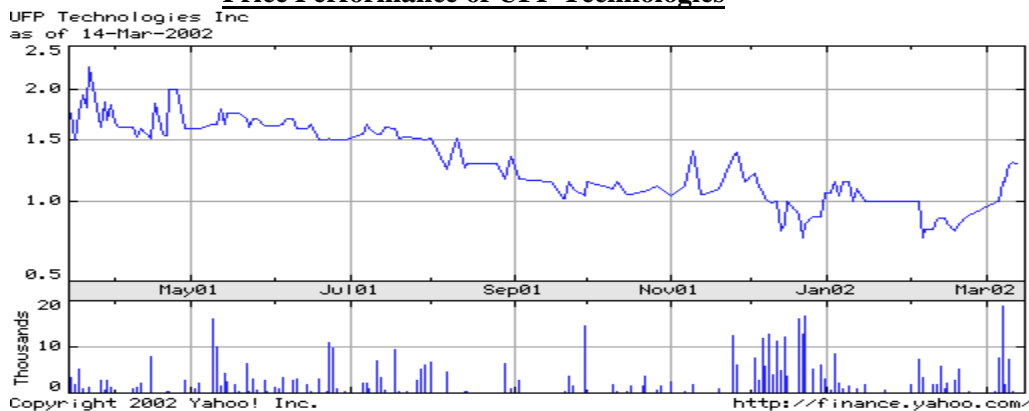
*Competition*

The packaging and specialty foam products industry is highly competitive. The Company’s foam and fiber packaging products compete against other alternative products made from materials such as expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles and foam-in-place urethane. UFP Technologies also faces competition in the specialty foam products area from smaller companies that typically concentrate on production for specific industries.

**Conclusion**

We reiterate our speculative buy rating for shares of UFP Technologies (UFPT) and have set a 24-month price target of \$3.50 per share. The recent acquisition of Excel Acquisition Group is expected to add over \$2 million annually to UFPT’s revenue and the nine automotive programs, which were launched during the third quarter of 2001, should generate over \$5 million annually. These, along with the planned rollout of the e-cube product line and the launching of additional automotive programs should add significantly to the Company’s top and bottom lines. Factor in an improving economy and the result is strong growth for fiscal 2002. We believe that the recent plant consolidations combined with strong revenue growth should enable UFP Technologies to become profitable in fiscal 2002.

**Price Performance of UFP Technologies**



Public companies mentioned in this report:

Graphic Packaging (NYSE: GPK)  
Peak International (NASDAQ NM: PEAK)  
Polyair Inter Pack (AMEX: PPK)  
Carmel Container Systems (AMEX: KML)  
Air Packaging Tech. (OTC BB: AIRP)  
RADVA Corp. (OTC BB: RDVA)

\* 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. Taglich Brothers, Inc. is not a market maker and does not sell to or buy from customers on a principal basis. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc., does not currently have an Investment Banking relationship with the company and was not a manager or co-manager of any offering for the company within the last three years. 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.

UFP Technologies, Inc.

Consolidated Balance Sheets  
(in thousands)

	31-Dec-01	31-Dec-00
<b>Assets</b>		
Current assets	\$ 17,199	\$ 18,513
Property, plant and equipment, net	12,045	12,454
Other assets	<u>8,858</u>	<u>9,385</u>
<b>Total Assets</b>	<b><u>\$ 38,102</u></b>	<b><u>\$ 40,352</u></b>
 <b>Liabilities &amp; stockholders' equity</b>		
Current liabilities	\$ 16,222	\$ 14,374
Long-term debt	6,827	7,589
Other liabilities	<u>899</u>	<u>862</u>
<b>Total liabilities</b>	<b>23,948</b>	<b>22,825</b>
<b>Total stockholder's equity</b>	<b><u>14,154</u></b>	<b><u>17,527</u></b>
<b>Total liabilities &amp; stockholder's equity</b>	<b><u>\$ 38,102</u></b>	<b><u>\$ 40,352</u></b>

UFP Technologies, Inc.

Annual Income Statements for the Years Ended  
(in thousands)

	<u>FY(12/99)</u>	<u>FY(12/00)</u>	<u>FY(12/01)</u>	<u>FY(12/02)E</u>	<u>FY(12/03)E</u>
<b>Net sales</b>	<b>\$ 58,801</b>	<b>\$ 74,491</b>	<b>\$ 61,574</b>	<b>\$ 67,000</b>	<b>\$ 75,000</b>
Cost of sales	<u>43,939</u>	<u>56,870</u>	<u>50,649</u>	<u>52,236</u>	<u>57,000</u>
Gross profit	14,862	17,621	10,925	14,764	18,000
<i>Gross Margin</i>	25.28%	23.66%	17.74%	22.04%	24.00%
Restructuring charge	-	-	1,016	-	-
SG&A	<u>11,582</u>	<u>14,236</u>	<u>13,649</u>	<u>13,600</u>	<u>15,000</u>
Operating income	3,280	3,385	(3,740)	1,164	3,000
<i>Operating Margin</i>	5.58%	4.54%	-6.07%	1.74%	4.00%
Interest expense	(641)	(1,221)	(1,030)	(1,000)	(1,000)
Other income (expense)	<u>191</u>	<u>(162)</u>	<u>16</u>	<u>-</u>	<u>-</u>
Income before taxes	2,830	2,002	(4,754)	164	2,000
Income tax	<u>1,136</u>	<u>921</u>	<u>(1,711)</u>	<u>74</u>	<u>900</u>
<i>Tax rate</i>	40.14%	46.00%	35.99%	45.12%	45.00%
<b>Net Income / (Loss)</b>	<b><u>\$ 1,694</u></b>	<b><u>\$ 1,081</u></b>	<b><u>\$ (3,043)</u></b>	<b><u>\$ 90</u></b>	<b><u>\$ 1,100</u></b>
<b>Basic EPS</b>	<b><u>\$ 0.35</u></b>	<b><u>\$ 0.25</u></b>	<b><u>\$ (0.72)</u></b>	<b><u>\$ 0.02</u></b>	<b><u>\$ 0.26</u></b>
<b>Diluted EPS</b>	<b><u>\$ 0.35</u></b>	<b><u>\$ 0.25</u></b>	<b><u>\$ (0.72)</u></b>	<b><u>\$ 0.02</u></b>	<b><u>\$ 0.26</u></b>
Basic Shares Outstanding	4,809	4,374	4,248	4,227	4,227
Diluted Shares Outstanding	4,896	4,386	4,248	4,227	4,227
<u>Percent of Revenue</u>					
Cost of goods sold	74.72%	76.34%	82.26%	77.96%	76.00%
SG&A	19.70%	19.11%	22.17%	20.30%	20.00%
<u>Year / Year Growth</u>					
Total Revenues	24.53%	26.68%	-17.34%	8.81%	11.94%
Net Income	2.85%	-36.19%	-381.50%	102.99%	1122.22%
EPS	1.47%	-28.77%	-390.64%	102.78%	1122.22%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2001  
(in thousands)

	<u>Q1(3/01)</u>	<u>Q2(6/01)</u>	<u>Q3(9/01)</u>	<u>Q4(12/01)</u>	<u>FY(12/01)</u>
<b>Net sales</b>	<b>\$ 16,966</b>	<b>\$ 15,481</b>	<b>\$ 13,935</b>	<b>\$ 15,192</b>	<b>\$ 61,574</b>
Cost of sales	<u>13,568</u>	<u>12,460</u>	<u>12,123</u>	<u>12,498</u>	<u>50,649</u>
Gross profit	3,398	3,021	1,812	2,694	10,925
<i>Gross Margin</i>	20.03%	19.51%	13.00%	17.50%	17.74%
Restructuring charge	-	-	-	1,016	1,016
SG&A	<u>3,805</u>	<u>3,237</u>	<u>3,303</u>	<u>3,304</u>	<u>13,649</u>
Operating income	(407)	(216)	(1,491)	(1,626)	(3,740)
<i>Operating Margin</i>	-2.40%	-1.40%	-10.70%	-10.70%	-6.07%
Interest expense	(275)	(284)	(223)	(248)	(1,030)
Other income (expense)	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>16</u>
Income before taxes	(682)	(484)	(1,714)	(1,874)	(4,754)
Income tax	<u>(314)</u>	<u>(216)</u>	<u>(771)</u>	<u>(410)</u>	<u>(1,711)</u>
<i>Tax rate</i>	46.04%	44.63%	44.98%	21.88%	35.99%
<b>Net Income / (Loss)</b>	<b><u>\$ (368)</u></b>	<b><u>\$ (268)</u></b>	<b><u>\$ (943)</u></b>	<b><u>\$ (1,464)</u></b>	<b><u>\$ (3,043)</u></b>
<b>Basic EPS</b>	<b><u>\$ (0.08)</u></b>	<b><u>\$ (0.06)</u></b>	<b><u>\$ (0.22)</u></b>	<b><u>\$ (0.35)</u></b>	<b><u>\$ (0.72)</u></b>
<b>Diluted EPS</b>	<b><u>\$ (0.08)</u></b>	<b><u>\$ (0.06)</u></b>	<b><u>\$ (0.22)</u></b>	<b><u>\$ (0.35)</u></b>	<b><u>\$ (0.72)</u></b>
Basic Shares Outstanding	4,375	4,193	4,214	4,222	4,248
Diluted Shares Outstanding	4,375	4,193	4,214	4,222	4,248
<u>Percent of Revenue</u>					
Cost of sales	79.97%	80.49%	87.00%	82.27%	82.26%
SG&A	22.43%	20.91%	23.70%	21.75%	22.17%
<u>Year / Year Growth</u>					
Total Revenues	-7.20%	-20.27%	-26.26%	-15.10%	-17.30%
Net Income	NMF	NMF	NMF	NMF	NMF
EPS	NMF	NMF	NMF	NMF	NMF



UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2002  
(in thousands)

	<u>Q1(3/02)E</u>	<u>Q2(6/02)E</u>	<u>Q3(9/02)E</u>	<u>Q4(12/02)E</u>	<u>FY(12/02)E</u>
<b>Net sales</b>	<b>\$ 15,000</b>	<b>\$ 17,000</b>	<b>\$ 16,750</b>	<b>\$ 18,250</b>	<b>\$ 67,000</b>
Cost of sales	<u>12,038</u>	<u>13,218</u>	<u>13,065</u>	<u>13,916</u>	<u>52,236</u>
Gross profit	2,963	3,783	3,685	4,334	14,764
<i>Gross Margin</i>	19.75%	22.25%	22.00%	23.75%	22.04%
SG&A	<u>3,700</u>	<u>3,300</u>	<u>3,300</u>	<u>3,300</u>	<u>13,600</u>
Operating income	(738)	483	385	1,034	1,164
<i>Operating Margin</i>	-4.92%	2.84%	2.30%	5.67%	1.74%
Interest expense	(250)	(250)	(250)	(250)	(1,000)
Other income (expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before taxes	(988)	233	135	784	164
Income tax	<u>(444)</u>	<u>105</u>	<u>61</u>	<u>353</u>	<u>74</u>
<i>Tax rate</i>	45.00%	45.00%	45.00%	45.00%	45.00%
<b>Net Income / (Loss)</b>	<b><u>\$ (543)</u></b>	<b><u>\$ 128</u></b>	<b><u>\$ 74</u></b>	<b><u>\$ 431</u></b>	<b><u>\$ 90</u></b>
<b>Basic EPS</b>	<b><u>\$ (0.13)</u></b>	<b><u>\$ 0.03</u></b>	<b><u>\$ 0.02</u></b>	<b><u>\$ 0.10</u></b>	<b><u>\$ 0.02</u></b>
<b>Diluted EPS</b>	<b><u>\$ (0.13)</u></b>	<b><u>\$ 0.03</u></b>	<b><u>\$ 0.02</u></b>	<b><u>\$ 0.10</u></b>	<b><u>\$ 0.02</u></b>
Basic Shares Outstanding	4,227	4,227	4,227	4,227	4,227
Diluted Shares Outstanding	4,227	4,227	4,227	4,227	4,227
<u>Percent of Revenue</u>					
Cost of goods sold	80.25%	77.75%	78.00%	76.25%	77.96%
SG&A	24.67%	19.41%	19.70%	18.08%	20.30%
<u>Year / Year Growth</u>					
Total Revenues	-11.59%	9.81%	20.20%	20.13%	8.81%
Net Income	NA	147.76%	107.85%	125.68%	102.99%
EPS	NA	150.00%	109.09%	125.71%	102.78%