

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

Research Report - Update

Investors should consider this report as only a single factor in making their investment decision.

UFP Technologies, Inc.

Rating: Buy

John Nobile

UFPT \$1.73 — (NASDAQ SC)

March 30, 2004

	FY (2002)	FY (2003)*	FY (2004)E	FY (2005)E
Revenues (millions)	\$61.2	\$60.9	\$65.8	\$76.4
Earnings per share (diluted)	\$(0.05)	\$(0.34)	\$0.15	\$0.65

52week range	\$1.00 – \$2.40	Fiscal year ends:	December
Shares outstanding (millions)	4.5	Revenue per share (TTM)	\$13.56
Trading float (millions)	2.0	Price/Sales (TTM)	0.1X
Insider + 5% ownership	56%	Price/Sales (2004)E	0.1X
Est. tangible book value/share	\$1.38	Price/Earnings (TTM)	NA
Price/est. tangible book	1.3X	Price/Earnings (2004)E	11.5X

*Includes a \$1.4 million restructuring charge.

UFP Technologies is a designer and manufacturer of a broad range of high performance cushion packaging and molded fiber products and specialty foam and plastic products. 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, automotive, medical/pharmaceutical and industrial markets. (www.ufpt.com)

Key investment considerations:

We are raising our rating for shares of UFP Technologies (UFPT) to Buy from Speculative Buy and setting a twelve-month price target of \$4.50 per share. Our price target has increased since our last report primarily due to a discounted valuation on fiscal 2005 estimates.

We believe that shares of UFPT represent good value at its current price when you consider the growth that industry forecasts suggest and the incremental revenue that a previously announced \$77 million contract should result in.

We believe that once Wall Street sees the Company's top-line performance and how cost cutting efforts affect bottom-line results; the price of the stock should appreciate considerably.

For fiscal 2004, we estimate UFPT's sales will increase by 8% \$65.8 million and the Company will report net income of \$0.7 million or \$0.15 per diluted share. Although we have lowered our estimates for 2004, we believe the Company's recent consolidation efforts should result in significant bottom-line increases with moderate increases in revenue. For fiscal 2005, we estimate UFPT's sales will increase by 16% to \$76.4 million and the Company will report net income of \$2.9 million or \$0.65 per diluted share.

**Please view our disclaimer located on page 8 of this report.*

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Business

The Company operates in two segments: Packaging Products and Component Products.

UFP Technologies' packaging products are used to contain, display and/or protect manufactured goods during shipment, handling, storage, marketing and use. The interior cushion packaging market is characterized by three primary sectors: (1) custom fabricated or molded products for low volume, high fragility products; (2) molded or die-cut products for high volume, industrial and consumer goods; and (3) loose fill and commodity packaging materials for products which do not require custom-designed packaging. Examples of the Company's packaging products include end-cap packs for computers, corner blocks for telecommunications consoles, anti-static foam packs for printed circuit boards, die-cut inserts for attaché cases and plastic trays for medical devices and components.

The Company's component products segment features specialty foam and plastic products that are sold primarily to customers in the automotive, sporting goods, medical, beauty, leisure and footwear industries. These products include components for automobiles and medical diagnostic equipment, abrasive nail files and anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

Recent Financial Results

For the fourth quarter ended December 31, 2003, versus the same period in 2002:

- Net sales increased 11% to \$15.2 million from \$13.7 million.
- Gross margins decreased to 16.9% from 18.0%.
- SG&A expenses increased to \$2.6 million from \$2.3 million.
- The net loss was \$1.1 million or \$(0.24) per share versus breakeven or \$0.00 per diluted share.

For the fiscal year ended December 31, 2003, versus the same period in 2002:

- Net sales remained virtually flat at \$60.9 million.
- Gross margins decreased to 17.6% from 19.8%.
- SG&A expenses decreased to \$10.7 million from \$12.1 million.
- The net loss was \$1.5 million or \$(0.34) per share versus a net loss of \$0.2 million or \$(0.05) per share.

Included in the results for the fourth quarter and fiscal 2003 was a \$1.4 million restructuring charge associated with the previously announced plant consolidation and \$0.2 million in equipment moving costs.

In comparison, Taglich Brothers' estimates called for fourth quarter and fiscal 2003 net sales of \$16.5 million and \$62.2 million respectively, and fourth quarter and fiscal 2003 net income (loss) of \$0.1 million or \$0.03 per diluted share and \$(0.3 million) or \$(0.06) per share respectively.

Balance Sheet as of December 31, 2003

We estimate cash was approximately \$0.1 million. The Company has working capital of \$1.2 million, an estimated tangible book value of \$1.38 per share and a long-term debt-to-equity ratio of 0.5X. We estimate cash used in operations for the fourth quarter of fiscal 2003 was approximately \$0.8 million. UFPT obtained a new credit facility in February 2003 that expires in February 2006. We estimate the Company has an available balance under this credit facility of approximately \$3.0 million. We believe that UFPT's current line of credit and future expected cash flows from operations will be sufficient to fund operations for the next twelve months.

Discussion and Outlook

Some key points from Management in the fiscal 2003 earnings release were:

- The Company continues to reduce costs and improve efficiency while investing in marketing initiatives, capital, and human resources to position the Company for a healthier future;
- The previously announced \$77 million automotive program remains on track to launch in the fourth quarter of 2004; and
- Anticipation of improved results in 2004 and 2005.

Approximately one-half of UFPT's sales are generated from its components products segment and one-half from its packaging products segment. A significant portion of the Company's packaging products sales are to manufacturers of computer peripherals and other consumer products while a significant portion of component products sales are to the automotive industry. Because of this, UFPT's sales have a direct correlation with the level of sales in the automotive and computer/electronics Industry.

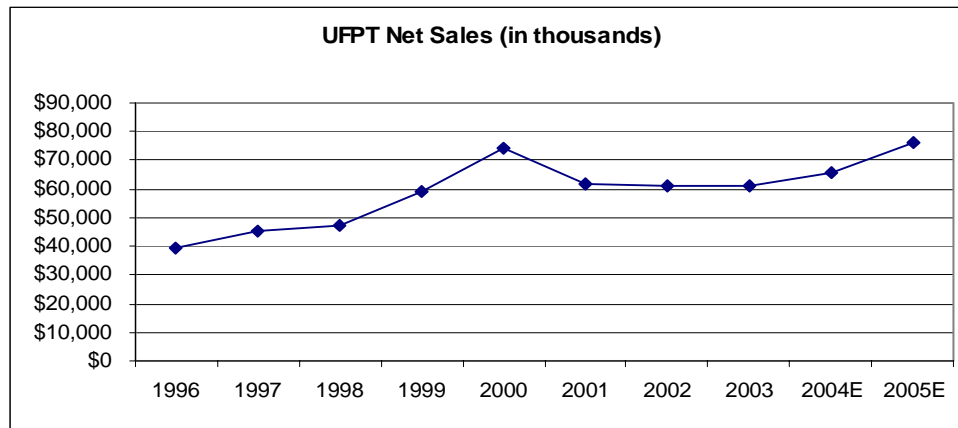
We believe that shares of UFP Technologies represent good value when you consider the \$77 million contract that was announced late in 2002. The eight-year contract calls for UFPT to provide molded door panels to a large Tier-1 automotive supplier. As mentioned above, manufacturing is expected to begin on this contract in the fourth quarter of 2004 with full rate production estimated for 2006. **We believe this should provide a significant boost to UFPT's components products sales in fiscal 2005 and beyond.**

We believe that UFP Technologies' packaging products sales should also do well in 2004 and 2005 when you take into consideration forecasts for the markets that the Company sells to. According to global IT researchers Gartner, Inc., U.S. enterprises increased IT spending in January and IT spending budgets are expected to rise in 2004. The Gartner Technology Demand Index (TDI) shows IT spending returned to budgeted levels in January. The Gartner TDI is an index included in a monthly economic indicator published by Gartner. An index value of 100 means businesses spent exactly what they had budgeted for the month. Based on interviews of more than 600 IT decision makers in small, midsize and large public and private organizations, the Gartner TDI for January recorded a score of 100 for current spending.

David Hankin, senior vice President and General Manager at Gartner said that "stable current spending reported in January means that projected increases in 2004 budgets are beginning to flow through organizations". Further, Hankin said that this bodes well for the spending increases foreseen by many IT decision makers and suggests that companies are moving forward with their IT strategies. When Gartner examined projected IT spending, it reported that respondents said that IT budgets for 2004 will grow across the board. In November 2003, Gartner projected IT spending to grow at a minimum of strong single-digit growth in 2004 and 2005. The technology research firm IDC is projecting a similar growth rate calling for worldwide IT spending to grow by 8% in 2004. Also, IDC said that upgrading essential hardware is the primary focus of 30% of corporate buyers. **An increase in the hardware portion of IT spending is what we believe will drive demand for UFPT's packaging products going forward.**

We believe the above information suggests that UFP Technology's sales should increase modestly in 2004 and show stronger growth in 2005.

For fiscal 2004, we estimate UFPT's sales will increase by 8% to \$65.8 million and the Company will report net income of \$0.7 million or \$0.15 per diluted share. Our fiscal 2004 estimates have been reduced since our last report primarily due to the lower than expected results for the fourth quarter of 2003. We are introducing estimates for fiscal 2005 based on our assumptions that the \$77 million contract discussed earlier will be operating at approximately 50% of full rate production. For fiscal 2005, we estimate UFPT's sales will increase by 16% to \$76.4 million and the Company will report net income of \$2.9 million or \$0.65 per diluted share.



Source: UFPT reports and Taglich Brothers' estimates

Risks

Cash concerns

Although we believe that the Company will have adequate resources to fund operations for the next twelve months, future cash flows may be less than we anticipate due to depressed market conditions. If market conditions remain at weak levels, we believe UFP Technologies will need to secure additional financing in order to maintain its current level of operations. As there can be no assurance of the Company's success in obtaining additional capital, shares of UFPT should only be purchased by those who are comfortable taking on above average risk.

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.

IT spending forecasts

Although recent forecasts support an increase in IT spending for 2004 and 2005, there can be no assurance that this will actually happen. Should IT spending remain at depressed levels, the operating results of UFP Technologies are likely to be adversely affected.

Liquidity

With only 4.5 million shares outstanding and 2.0 million in the float, liquidity issues must be considered. Average daily volume is approximately 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.

Miscellaneous risks

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

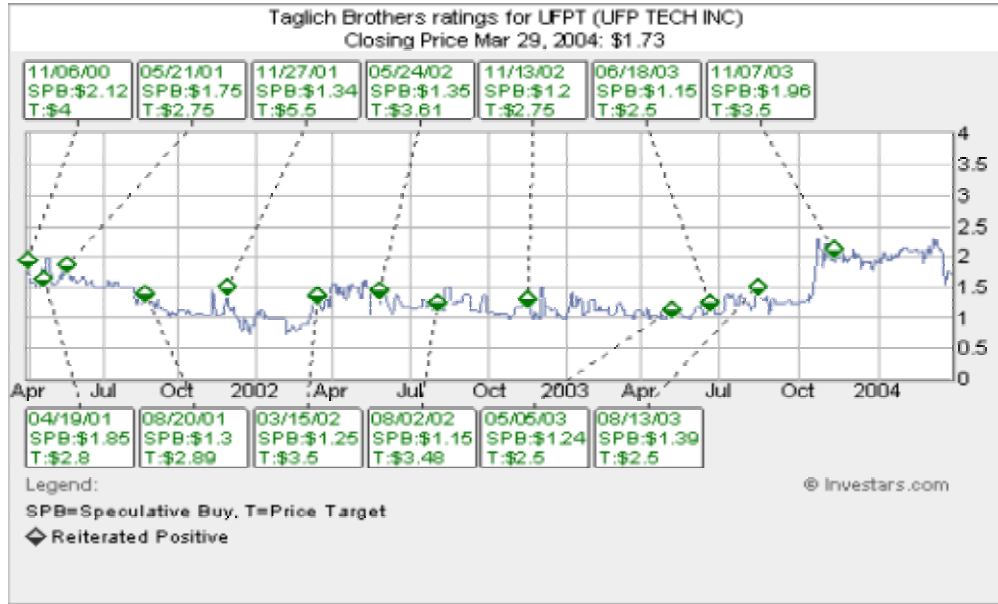
Conclusion

We are raising our rating for shares of UFP Technologies (UFPT) to **Buy** from Speculative Buy.

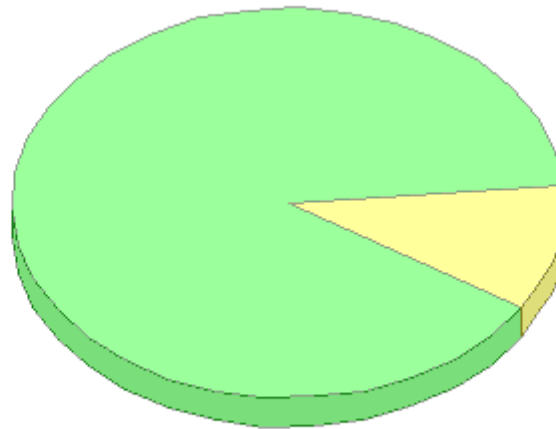
We believe that shares of UFPT represent good value at its current price when you consider the growth that industry forecasts suggest and the incremental revenue that the \$77 million contract should result in. Although we have lowered our estimates for 2004, we believe the Company's recent consolidation efforts should result in significant bottom-line increases with moderate increases in revenue. We believe that once Wall Street sees the Company's top-line performance and how cost cutting efforts affect bottom-line results; the price of the stock should appreciate considerably.

For fiscal 2004, we estimate UFPT's sales will increase by 8% \$65.8 million and the Company will report net income of \$0.7 million or \$0.15 per diluted share. For fiscal 2005, we estimate UFPT's sales will increase by 16% to \$76.4 million and the Company will report net income of \$2.9 million or \$0.65 per diluted share.

UFPT continues to trade at a large discount to the industry (containers and packaging) averages. The TTM price to sales multiple for shares of UFPT is currently 0.1X vs. 1.0X for the industry. UFPT's price to book multiple is currently 0.6X vs. 3.9X for the industry. We believe that a continual improvement of the Company's operating results should help to firm UFPT's multiples in regard to the industry. The industry is currently trading at approximately 21X TTM earnings. As a conservative valuation, we are applying a price to earnings multiple of approximately 8X for shares of UFPT. We feel the 8X multiple is justified when you consider the 8% industry forecast and the current trend in sales from UFPT's components segment (also 8%). Applying a multiple of 8X to our forecasted earnings of \$0.57 per share (\$0.65 per share for fiscal 2005 discounted to a twelve-month value using the Capital Asset Pricing Model) gives us a **twelve-month price target of approximately \$4.50 per share.**



Taglich Brothers' Current Ratings Distribution



89.58 % Buy | 10.42 % Hold

Meaning of Ratings

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

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I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

UFP Technologies, Inc.

Consolidated Balance Sheets
(in thousands)

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Assets		
Current assets	\$ 15,835	\$ 15,122
Net property, plant and equipment	11,473	11,206
Other assets	<u>9,441</u>	<u>9,055</u>
Total Assets	<u>\$ 36,749</u>	<u>\$ 35,383</u>
Liabilities & stockholders' equity		
Current liabilities	\$ 14,626	\$ 13,582
Long-term debt	6,222	6,851
Other liabilities	<u>3,210</u>	<u>900</u>
Total liabilities	<u>24,058</u>	<u>21,333</u>
Total stockholder's equity	<u>12,691</u>	<u>14,050</u>
Total liabilities & stockholder's equity	<u>\$ 36,749</u>	<u>\$ 35,383</u>

UFP Technologies, Inc.

Annual Income Statements for the Years Ended
(in thousands)

	<u>FY(12/01)</u>	<u>FY(12/02)</u>	<u>FY(12/03)</u>	<u>FY(12/04)E</u>	<u>FY(12/05)E</u>
Net sales	\$ 61,574	\$ 61,189	\$ 60,902	\$ 65,750	\$ 76,400
Cost of sales	<u>50,649</u>	<u>49,084</u>	<u>50,178</u>	<u>52,362</u>	<u>58,064</u>
Gross profit	10,925	12,105	10,724	13,388	18,336
<i>Gross Margin</i>	17.74%	19.78%	17.61%	20.36%	24.00%
Restructuring charge	1,016	-	1,405	-	-
SG&A	<u>13,649</u>	<u>11,639</u>	<u>10,827</u>	<u>11,500</u>	<u>13,000</u>
Operating income	(3,740)	466	(1,508)	1,888	5,336
<i>Operating Margin</i>	-6.07%	0.76%	-2.48%	2.87%	6.98%
Interest expense, other income and expenses	<u>(1,014)</u>	<u>(843)</u>	<u>(847)</u>	<u>(800)</u>	<u>(800)</u>
Income before taxes	(4,754)	(377)	(2,355)	1,088	4,536
Income tax	<u>(1,711)</u>	<u>(143)</u>	<u>(839)</u>	<u>392</u>	<u>1,633</u>
<i>Tax rate</i>	35.99%	37.93%	35.63%	36.03%	36.00%
Net Income / (Loss)	<u>\$ (3,043)</u>	<u>\$ (234)</u>	<u>\$ (1,516)</u>	<u>\$ 696</u>	<u>\$ 2,903</u>
Basic EPS	<u>\$ (0.72)</u>	<u>\$ (0.05)</u>	<u>\$ (0.34)</u>	<u>\$ 0.15</u>	<u>\$ 0.65</u>
Diluted EPS	<u>\$ (0.72)</u>	<u>\$ (0.05)</u>	<u>\$ (0.34)</u>	<u>\$ 0.15</u>	<u>\$ 0.65</u>
Basic Shares Outstanding	4,248	4,343	4,490	4,500	4,500
Diluted Shares Outstanding	4,248	4,343	4,490	4,500	4,500
<u>Percent of Revenue</u>					
Cost of goods sold	82.26%	80.22%	82.39%	79.64%	76.00%
SG&A	22.17%	19.02%	17.78%	17.49%	17.02%
<u>Year / Year Growth</u>					
Total Revenues	-17.34%	-0.63%	-0.47%	7.96%	16.20%
Net Income	NA	NA	NA	145.91%	317.10%
EPS	NA	NA	NA	145.81%	317.10%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2003
(in thousands)

	<u>Q1(3/03)</u>	<u>Q2(6/03)</u>	<u>Q3(9/03)</u>	<u>Q4(12/03)</u>	<u>FY(12/03)</u>
Net sales	\$ 14,245	\$ 15,353	\$ 16,056	\$ 15,248	\$ 60,902
Cost of sales	<u>11,985</u>	<u>12,614</u>	<u>12,904</u>	<u>12,676</u>	<u>50,178</u>
Gross profit	2,260	2,739	3,152	2,572	10,724
<i>Gross Margin</i>	15.87%	17.84%	19.63%	16.87%	17.61%
Restructuring charge	-	-	-	1,405	1,405
SG&A	<u>2,686</u>	<u>2,640</u>	<u>2,906</u>	<u>2,595</u>	<u>10,827</u>
Operating income	(426)	99	246	(1,428)	(1,508)
<i>Operating Margin</i>	-2.99%	0.64%	1.53%	-9.37%	-2.48%
Interest expense, other income & expenses	<u>(168)</u>	<u>(208)</u>	<u>(184)</u>	<u>(288)</u>	<u>(847)</u>
Income before taxes	(594)	(109)	62	(1,716)	(2,355)
Income tax	<u>(226)</u>	<u>(13)</u>	<u>21</u>	<u>(621)</u>	<u>(839)</u>
<i>Tax rate</i>	38.05%	11.93%	33.87%	36.19%	35.63%
Net Income / (Loss)	<u>\$ (368)</u>	<u>\$ (96)</u>	<u>\$ 41</u>	<u>\$ (1,095)</u>	<u>\$ (1,516)</u>
Basic EPS	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ (0.24)</u>	<u>\$ (0.34)</u>
Diluted EPS	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ (0.24)</u>	<u>\$ (0.34)</u>
Basic Shares Outstanding	4,429	4,492	4,601	4,520	4,490
Diluted Shares Outstanding	4,429	4,492	4,601	4,520	4,490
<u>Percent of Revenue</u>					
Cost of goods sold	84.13%	82.16%	80.37%	83.13%	82.39%
SG&A	18.86%	17.20%	18.10%	17.02%	17.78%
<u>Year / Year Growth</u>					
Total Revenues	-8.28%	-7.78%	5.06%	11.08%	-0.47%
Net Income	NA	NA	NA	NMF	NA
EPS	NA	NA	NA	NMF	NA

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ending 2004
(in thousands)

	<u>Q1(3/04)E</u>	<u>Q2(6/04)E</u>	<u>Q3(9/04)E</u>	<u>Q4(12/04)E</u>	<u>FY(12/04)E</u>
Net sales	\$ 16,000	\$ 16,250	\$ 16,500	\$ 17,000	\$ 65,750
Cost of sales	<u>12,864</u>	<u>12,984</u>	<u>13,101</u>	<u>13,413</u>	<u>52,362</u>
Gross profit	3,136	3,266	3,399	3,587	13,388
<i>Gross Margin</i>	<i>19.60%</i>	<i>20.10%</i>	<i>20.60%</i>	<i>21.10%</i>	<i>20.36%</i>
SG&A	<u>2,800</u>	<u>2,850</u>	<u>2,900</u>	<u>2,950</u>	<u>11,500</u>
Operating income	336	416	499	637	1,888
<i>Operating Margin</i>	<i>2.10%</i>	<i>2.56%</i>	<i>3.02%</i>	<i>3.75%</i>	<i>2.87%</i>
Interest expense, other income & expenses	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(800)</u>
Income before taxes	136	216	299	437	1,088
Income tax	<u>49</u>	<u>78</u>	<u>108</u>	<u>157</u>	<u>392</u>
<i>Tax rate</i>	<i>36.00%</i>	<i>36.00%</i>	<i>36.00%</i>	<i>36.00%</i>	<i>36.00%</i>
Net Income / (Loss)	<u>\$ 87</u>	<u>\$ 138</u>	<u>\$ 191</u>	<u>\$ 280</u>	<u>\$ 696</u>
Basic EPS	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.06</u>	<u>\$ 0.15</u>
Diluted EPS	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.06</u>	<u>\$ 0.15</u>
Basic Shares Outstanding	4,500	4,500	4,500	4,500	4,500
Diluted Shares Outstanding	4,500	4,500	4,500	4,500	4,500
<u>Percent of Revenue</u>					
Cost of goods sold	80.40%	79.90%	79.40%	78.90%	79.64%
SG&A	17.50%	17.54%	17.58%	17.35%	17.49%
<u>Year / Year Growth</u>					
Total Revenues	12.32%	5.84%	2.77%	11.49%	7.96%
Net Income	123.65%	244.17%	366.73%	125.54%	145.94%
EPS	123.28%	243.91%	377.21%	125.66%	145.84%