

## 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

April 6, 2015

**UFPT \$22.83 — (NASDAQ CM)**

	2013A	2014A	2015E	2016E
Revenues (millions)	\$139.2	\$139.3	\$142.0	\$147.7
Earnings per share (diluted)	\$1.59	\$1.05	\$1.23	\$1.76

52-Week range	\$27.43 – \$19.89	Fiscal year ends:	December
Shares outstanding as of 3/6/14	7.1 million	Revenue per share (TTM)	\$19.42
Approximate float	5.7 million	Price/Sales (TTM)	1.2X
Market capitalization	\$162 million	Price/Sales (2016)E	1.1X
Tangible book value/share	\$12.27	Price/Earnings (TTM)	21.7X
Price/tangible book	1.9X	Price/Earnings (2016)E	13.0X

*UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures packaging products for the medical, automotive, aerospace and defense, and packaging markets using foams, plastics, composites, and natural fiber materials. ([www.ufpt.com](http://www.ufpt.com))*

#### **Key investment considerations:**

***Reiterating our Buy rating and maintaining twelve-month price target of \$27.50.***

***An aging population, increasing automotive demand, and innovation in electronic products should drive growth in UFPT's principal end markets over the next five years.***

***In 1Q15, the company acquired a commercial building in Newburyport, Massachusetts and will consolidate operations from its Raritan New Jersey plant into the new building. Plant consolidations in 2014 (in California and Michigan) and 1Q15 (Massachusetts) will cut costs by approximately \$1.7 million annually driving gross margin improvement to 30% by 2016 from 26.5% in 2014.***

***For 2015, we project revenue of \$142 million (\$146.7 million previously) and EPS of \$1.23 (\$1.73 previously). Our lower projections primarily reflect the adverse effect of the Massachusetts consolidation on sales and margins.***

***For 2016, we project revenue \$147.7 million and EPS of \$1.76 per share as a full year of cost savings from the 2015 plant consolidation widens gross margins.***

***4Q14 revenue (10-K released 3/13/15) increased 1% to \$35.3 million and EPS decreased to \$0.22 from \$0.47. We projected 4Q14 revenue of \$35.7 million and EPS of \$0.29. 4Q14 results included \$0.5 million of restructuring costs associated with plant consolidations.***

***Please view our disclosures on pages 11 - 13.***

## ***Recommendation and Valuation***

We are reiterating our **Buy** rating on UFP Technologies and maintaining our **twelve-month price target of \$27.50**.

Shares of UFPT have been trading at multiples between 19X and 24X TTM earnings over the past three months and currently trade at a multiple of 22X. The company's direct competitors are trading at an average multiple of 22X TTM earnings (excludes Graphic Packaging's 54X multiple and Sealed Air's 39X multiple). We believe UFPT's multiple will pull back to 17X with the moderate growth we project. Applying a multiple of 17X to our 2016 earnings estimate of \$1.76 per share discounted to a twelve-month value of \$1.60 gives us a price target of approximately \$27.50.

## ***Business***

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures packaging products for the medical, automotive, aerospace and defense, and packaging markets using foams, plastics, composites, and natural fiber materials.

UFPT's products include automotive interior trim, medical device components, disposable wound care components, athletic padding, air filtration, high-temperature insulation, and military uniform and gear components.

Approximately 36% of sales are to the medical device industry for applications such as compression-molded foam finger splints, orthopedic foam components, and dental fluoride trays. UFPT's other end markets (automotive, defense, electronics, and industrial) each account for approximately 10% to 20% of the company's revenue.

The company differentiates itself through the design and production of customized products (such as foam case inserts pictured at right). Through a combination of materials, technology, and engineering, the company is able to produce unique case inserts for surgical instruments, customized repair kits, electronic parts, emergency response equipment, and many other applications.



## ***Industry Outlook***

In January 2015, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 2.6% to \$11.1 billion through 2021. However, UFP Technologies' revenue should grow at a higher rate reflecting faster end market growth driven by an aging population, increasing automotive demand, and innovative new electronics products.

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years.

The Patient Protection and Affordable Care Act (PPAC) has created a degree of uncertainty for medical device companies. Healthcare reform has tightened the pricing environment for these companies and may pressure pricing across the board. However, PPAC may benefit the industry as it aims to increase the number of insured people, driving increased usage of medical devices.

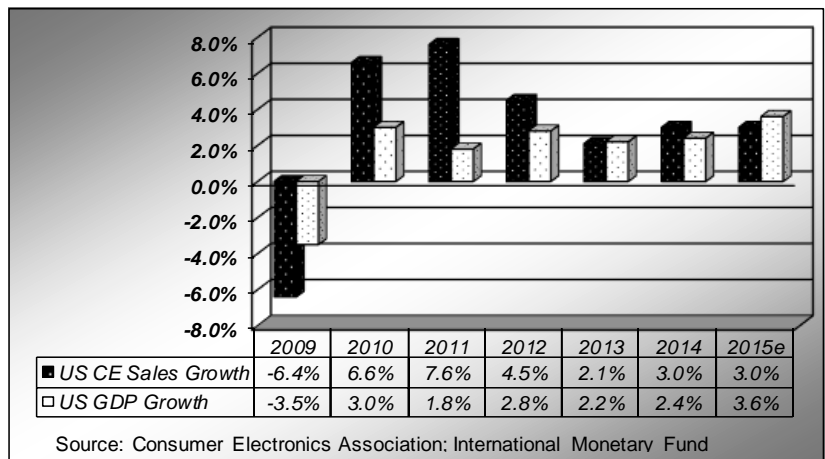
In 2013, a new Medicare competitive bidding program on durable medical equipment went into effect. Medicare uses the lower prices on the bids from this program to set the amount it will pay for equipment and supplies. Reduced pricing for medical equipment could have an adverse effect on prices medical equipment manufacturers are willing to pay for packaging products. However, the company has not yet seen any impact from this.

The Patient Protection and Affordable Care Act imposed a 2.3% excise tax on the sale price of medical devices effective January 1, 2013. In March 2015, Senator Edward J. Markey, Democrat of Massachusetts, introduced legislation to repeal the excise tax on medical devices. Markey’s bill is the second in the Senate to seek repeal. The medical device industry has complained that the tax has led to cuts in research and development, cost jobs, and hurt innovation.

In February 2015, IBISWorld forecasted medical device industry average annual sales growth of approximately 6.1% to \$57 billion during the six years to 2021.

In February 2015, IBISWorld projected the US car and automobile industry to show average annual sales growth of 2.3% to \$122 billion in the six years to 2021. Growth will be driven by renewed consumer spending and a move toward green (hybrid and electric fuel-efficient) vehicles.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which are economically sensitive. The chart at right shows how US consumer electronics sales were affected by changes in the economy over the past six years with projections for 2015.



In January 2015, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.4% to \$84 billion during the six years to 2021. This growth will be driven by technologies such as tablet computers and e-readers and consumer spending.

UFP Technologies’ aerospace and defense products are used in applications such as protective cases and inserts for military equipment (i.e. tools used for large engine rebuilds), uniform and gear components such as backpacks and duty belts used by soldiers in combat, and explosion suppressant foams used in fuel systems of aircrafts. US defense spending increased by 1% in 2014, is projected to decline by 3% in 2015, and increase by 4% in 2016 according to the most recent US Department of Defense budget request (February 2015). This fluctuation in defense spending over the next two years is likely to limit UFPT’s sales to this market.

### ***Economic Outlook***

Most of UFPT’s sales are to economically sensitive end markets.

In January 2015, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.5% in 2015 and 3.7% in 2016, down from an earlier (October 2014) growth forecast of 3.8% in 2015 and 4% in 2016. The downward revision reflects the impact lower oil prices will have on investment in the oil sector and a reassessment of prospects in China, Russia, the euro area, and Japan as well as weaker activity in some major oil exporters because of the sharp drop in oil prices.

The IMF's economic growth estimate for the US was revised upward to 3.6% for 2015 and 3.3% for 2016, up from 3.1% in 2015 (October 2014) and 3% in 2016. The IMF said that US growth should be driven by domestic demand supported by low oil prices. Subsequent to the IMF's economic growth estimates was the release (on March 27, 2015) of the US GDP third estimate which showed the US economy grew at an annual rate of 2.2% in 4Q14. For all of 2014, the US economy grew at a rate of 2.4%, in line with the latest figures from the IMF.

As the company sells 95% of its products in the US, a growing US economy should bode well for sales of the company's products through our forecast horizon.

### **Competition**

The packaging industry is highly competitive. While there are several national companies that sell interior packaging, the company's primary competition for its packaging are smaller independent regional manufacturing companies. The company's foam and fiber packaging products also compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The company's component products compete with smaller companies that typically concentrate on production of component products for specific industries.

Proximity is a key competitive factor in the packaging business. Companies shipping products typically buy packaging from vendors that are relatively close to their manufacturing facilities to increase shipping efficiency and decrease costs. As many US companies move their manufacturing operations overseas, particularly to the Far East, the associated packaging business often follows. UFP Technologies has lost customers in the past and may lose customers in the future as a result of customers moving their manufacturing facilities offshore, then hiring competitors that operate packaging-production facilities perceived to be more territorially advantageous.

Other competitive factors are price, product performance, product reliability, and customer service. We believe the company's ability to custom design proprietary manufacturing equipment in conjunction with its machinery suppliers enables the company to effectively differentiate its products. For example, UFPT has custom-designed its own lamination machines allowing the company to achieve adhesive bonds between cross-linked foam and fabric and other materials that do not easily combine. These specialty laminates typically command higher prices than traditional foam products.

Some of UFPT's public competitors include Graphic Packaging, Packaging Corp. of America, Greif, Bemis Company, and Sealed Air Corp. TTM sales and gross margins for UFP Technologies and its public competitors are shown at right.

Company	Sales TTM	Gross Margin
Graphic Packaging	\$4.2B (12/14)	18.6%
Packaging Corp. of America	\$5.9B (12/14)	21.0%
Greif	\$4.1B (1/15)	18.8%
Bemis Company	\$4.3B (12/14)	19.8%
Sealed Air Corp.	\$7.8B (9/14)	34.4%
UFP Technologies	\$139.3M (12/14)	26.5%
Source: Company filings		

UFPT's margins are at the high end of the range for our comparison group, due arguably to the company's ability to differentiate its products. Most of the company's competitors primarily offer conventional shipping and packaging products (i.e. shipping containers and boxes) or flexible packaging products (i.e. plastic bags, films and laminates) whereas UFP Technologies offers products that are custom designed and engineered for specific applications (i.e. customized foam case inserts for the electronics industry).

### **Projections**

#### *2015 Forecast*

For 2015, we project revenue of \$142 million (\$146.7 million previously) and net income of \$8.9 million or \$1.23 per share (previously \$12.6 million or \$1.73 per share). Excluding the \$1.3 million one-time costs associated with plant consolidations, EPS would be approximately \$1.35. Our lower projections primarily reflect the adverse effect the Massachusetts consolidation (ceasing operations at the Raritan, New Jersey plant and consolidating operations into its Newburyport, Massachusetts facility) will have on sales and margins. In 1Q15, the company

acquired a commercial building in Newburyport, Massachusetts for approximately \$6.8 million. UFPT expects cost savings of approximately \$400,000 annually as a result of this consolidation which is expected to be completed on or before October 31, 2015. Combined with the 2014 consolidations (in California and Michigan), cost savings are projected to be approximately \$1.7 million annually.

SG&A expenses should remain flat at \$23.9 million due to the absence of over \$300,000 of costs associated with a one-time write-off of bad debt and increased employee healthcare costs from a higher than typical frequency of large claims. SG&A margins are projected to decrease to 16.8%. Operating income is projected to increase to \$13.4 million from \$11.6 million with margins increasing to 9.4% from 8.3%. Taxes are estimated at 35%.

In 2015, we project \$14.3 million cash from operations consisting of cash earnings of \$14.6 million and increases in working capital of \$383,000. The increase in working capital is primarily due to increases in receivables. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by \$1.2 million to \$35.2 million at the end of 2015.

#### *2016 Forecast*

For 2016, we project revenue growth of 4% to \$147.7 million, in line with the company's historic growth rate and projected growth rates of the markets the company sells to. We project net income of \$12.9 million or \$1.76 per share as a full year of cost savings from the 2015 plant consolidations should widen gross margins to 30%. SG&A expenses should increase to \$24.8 million from \$23.9 million in 2015 due primarily to increased compensation costs. SG&A margins are projected to remain at 16.8%. Operating income is projected to increase to \$19.5 million from \$13.4 million with margins increasing to 13.2% from 9.4%. Taxes are estimated at 35%.

In 2016, we project \$19 million cash from operations consisting primarily of cash earnings. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by \$12.8 million to \$48 million at the end of 2016.

#### ***4Q and FY 2014 Financial Results***

4Q14 - Sales increased 1% to \$35.3 million. Net income decreased to \$1.6 million or \$0.22 per share from \$3.4 million or \$0.47 per share. Excluding restructuring costs of approximately \$0.5 million, net income was \$2 million or \$0.27 per share in 4Q14. We projected 4Q14 sales of \$35.7 million and net income of \$2.1 million or \$0.29 per share.

Gross margins decreased to 24.6% from 32.1% due primarily to consolidation costs, costs associated with the launch of a new molded fiber line, and costs related to the Texas plant relocation. SG&A expenses decreased to \$5.7 million from \$5.9 and restructuring costs associated with the company's plant consolidations was \$460,000. Operating income decreased to \$2.5 million from \$5.3 million resulting in margins decreasing to 7% from 15.2%. The company showed an effective income tax rate of 38.5%.

FY 2014 - Sales were flat at \$139.3 million. Net income decreased to \$7.6 million or \$1.05 per share from \$11.3 million or \$1.59 per share.

Sales gains in the aerospace and defense and medical markets were offset by a decrease in sales to the automotive market. Gross margins decreased to 26.5% from 29.5% primarily due to higher employee health care costs and manufacturing inefficiencies related to the company's plant consolidations. SG&A expenses increased to \$23.8 million from \$23.6 million due primarily to increased employee health care costs. Restructuring costs associated with the company's plant consolidations were \$1.5 million. Operating income decreased to \$11.6 million from \$17.4 million resulting in margins decreasing to 8.3% from 12.5%. Excluding restructuring costs, operating income was \$13 million for an operating margin of 9.4%. The company showed an effective income tax rate of 35.8%.

### *Liquidity*

The company has a strong balance sheet. Total debt is \$2.9 million, tangible equity is \$86.7 million, and cash (approximately \$4.82 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.7 for the packaging and containers industry.

Cash earnings of \$13.1 million and a \$1.9 million increase in working capital resulted in \$11.1 million cash provided by operations in 2014. The increase in working capital was primarily due to a \$2.2 million decrease in accrued expenses. Capital expenditures of \$13.4 million, including additions of manufacturing machinery and equipment associated with plant consolidations, were the primary drain on cash resulting in a \$3.3 million decrease in cash to \$34.1 million as of December 31, 2014.

UFPT has a \$40 million revolving credit facility with Bank of America with no borrowings as of December 31, 2014. The credit facility bears interest at LIBOR plus 1.0% to 1.5%, or the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The company's revolving credit facility matures November 30, 2018. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant which the company was in compliance with at December 31, 2014.

UFPT has a \$5 million 1.83% fixed rate loan agreement to finance the purchase of two new molded fiber machines. The outstanding balance was \$2.9 million as of December 31, 2014. The loan is secured by the related molded fiber machines.

### ***Risks***

In our view, these are the principal risks underlying the stock:

#### Dependence on a small number of customers

The company's top ten customers represented approximately 24% of total revenues in 2014. The loss of sales to a large customer would have a material adverse effect on projected financial results.

#### Competition

The packaging and component products industries are highly competitive. The company's primary competition for its packaging products has been from smaller independent regional manufacturers. UFPT's component products face competition from smaller companies that typically concentrate on production of component products for specific industries.

#### Economic conditions

Poor economic conditions could negatively impact sales of the company's packaging customers.

#### Environmental considerations

Future government action may impose restrictions affecting the industries in which the company operates. There can be no assurance that any such action will not adversely impact UFP Technologies.

#### Liquidity

With only 7.1 million shares outstanding and 5.7 million in the float, liquidity issues must be considered. Average daily volume has been approximately 13,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

#### Miscellaneous

The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

UFP Technologies, Inc.

Balance Sheets  
(in thousands \$)

	<u>2012A</u>	<u>2013A</u>	<u>2014A</u>	<u>2015E</u>	<u>2016E</u>
Cash and cash equivalents	33,479	37,303	34,052	35,237	48,042
Receivables	17,836	17,032	16,470	16,788	17,462
Inventories	9,695	11,048	12,893	13,022	13,014
Prepaid expenses	654	690	664	664	664
Refundable income taxes	1,714	1,537	3,192	3,192	3,192
Deferred income taxes	<u>1,116</u>	<u>1,222</u>	<u>1,142</u>	<u>1,142</u>	<u>1,142</u>
Total current assets	64,494	68,832	68,413	70,045	83,516
Net property, plant and equipment	23,318	25,507	34,843	43,502	44,474
Goodwill	7,039	7,322	7,322	7,322	7,322
Intangible assets	2,084	1,346	953	635	317
Other assets	<u>1,682</u>	<u>2,013</u>	<u>2,159</u>	<u>2,159</u>	<u>2,159</u>
<b>Total assets</b>	<b><u>98,617</u></b>	<b><u>105,020</u></b>	<b><u>113,690</u></b>	<b><u>123,663</u></b>	<b><u>137,788</u></b>
Current portion of long-term debt	1,550	976	993	993	993
Accounts payable	4,088	3,081	5,398	5,452	5,449
Accrued expenses	<u>7,593</u>	<u>8,265</u>	<u>5,222</u>	<u>5,323</u>	<u>5,537</u>
Total current liabilities	13,231	12,322	11,613	11,768	11,978
Long-term debt	8,314	2,867	1,873	873	-
Deferred income taxes	1,589	2,436	3,588	3,588	3,588
Other liabilities	<u>2,222</u>	<u>1,805</u>	<u>1,624</u>	<u>1,624</u>	<u>1,624</u>
<b>Total liabilities</b>	<b><u>25,356</u></b>	<b><u>19,430</u></b>	<b><u>18,698</u></b>	<b><u>17,853</u></b>	<b><u>17,190</u></b>
<b>Total stockholders' equity</b>	<b><u>73,261</u></b>	<b><u>85,590</u></b>	<b><u>94,992</u></b>	<b><u>105,810</u></b>	<b><u>120,598</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>98,617</u></b>	<b><u>105,020</u></b>	<b><u>113,690</u></b>	<b><u>123,663</u></b>	<b><u>137,788</u></b>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements  
(in thousands \$)

	<u>2012A</u>	<u>2013A</u>	<u>2014A</u>	<u>2015E</u>	<u>2016E</u>
Net sales	130,962	139,223	139,307	142,000	147,700
Cost of sales	<u>92,777</u>	<u>98,574</u>	<u>102,427</u>	<u>103,453</u>	<u>103,390</u>
Gross profit	38,185	40,649	36,880	38,547	44,310
Extraordinary items	(12)	11	1,472	1,300	-
SG&A	<u>21,531</u>	<u>23,240</u>	<u>23,847</u>	<u>23,856</u>	<u>24,812</u>
Operating income	16,666	17,398	11,561	13,391	19,498
Non-operating (expenses) income	<u>(92)</u>	<u>(205)</u>	<u>204</u>	<u>300</u>	<u>300</u>
Income before taxes	16,574	17,193	11,765	13,691	19,798
Income tax	<u>5,679</u>	<u>5,917</u>	<u>4,206</u>	<u>4,792</u>	<u>6,929</u>
Net Income / (Loss)	<u>10,895</u>	<u>11,276</u>	<u>7,559</u>	<u>8,899</u>	<u>12,869</u>
EPS	<u>1.55</u>	<u>1.59</u>	<u>1.05</u>	<u>1.23</u>	<u>1.76</u>
Shares Outstanding	7,028	7,105	7,175	7,238	7,300
<u>Margin Analysis</u>					
Gross margin	29.2%	29.2%	26.5%	27.1%	30.0%
SG&A	16.4%	16.7%	17.1%	16.8%	16.8%
Operating margin	12.7%	12.5%	8.3%	9.4%	13.2%
Pretax margin	12.7%	12.3%	8.4%	9.6%	13.4%
Tax rate	34.3%	34.4%	35.8%	35.0%	35.0%
<u>Year / Year Growth</u>					
Total Revenues	2.9%	6.3%	0.1%	1.9%	4.0%
Net Income	5.3%	3.5%	(33.0)%	17.7%	44.6%
EPS	4.9%	2.4%	(33.6)%	16.7%	43.4%

Source: Company filings and Taglich Brothers' estimates



UFP Technologies, Inc.

Quarterly Income Statements 2014A - 2016E  
(in thousands \$)

	<u>3/14A</u>	<u>6/14A</u>	<u>9/14A</u>	<u>12/14A</u>	<u>2014A</u>	<u>3/15E</u>	<u>6/15E</u>	<u>9/15E</u>	<u>12/15E</u>	<u>2015E</u>	<u>3/16E</u>	<u>6/16E</u>	<u>9/16E</u>	<u>12/16E</u>	<u>2016E</u>
Net sales	34,609	34,025	35,406	35,267	139,307	34,600	35,000	36,000	36,400	142,000	36,550	36,800	37,050	37,300	147,700
Cost of sales	<u>25,580</u>	<u>24,549</u>	<u>25,723</u>	<u>26,575</u>	<u>102,427</u>	<u>25,604</u>	<u>25,725</u>	<u>26,280</u>	<u>25,844</u>	<u>103,453</u>	<u>25,585</u>	<u>25,760</u>	<u>25,935</u>	<u>26,110</u>	<u>103,390</u>
Gross profit	9,029	9,476	9,683	8,692	36,880	8,996	9,275	9,720	10,556	38,547	10,965	11,040	11,115	11,190	44,310
Extraordinary items	-	222	714	536	1,472	400	400	400	100	1,300	-	-	-	-	-
SG&A	<u>5,834</u>	<u>6,466</u>	<u>5,871</u>	<u>5,676</u>	<u>23,847</u>	<u>5,813</u>	<u>5,880</u>	<u>6,048</u>	<u>6,115</u>	<u>23,856</u>	<u>6,140</u>	<u>6,182</u>	<u>6,224</u>	<u>6,266</u>	<u>24,812</u>
Operating income	3,195	2,788	3,098	2,480	11,561	2,783	2,995	3,272	4,341	13,391	4,825	4,858	4,891	4,924	19,498
Non-operating (expenses) income	<u>(22)</u>	<u>73</u>	<u>81</u>	<u>72</u>	<u>204</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>300</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>75</u>	<u>300</u>
Income before taxes	3,173	2,861	3,179	2,552	11,765	2,858	3,070	3,347	4,416	13,691	4,900	4,933	4,966	4,999	19,798
Income tax	<u>1,111</u>	<u>1,001</u>	<u>1,113</u>	<u>981</u>	<u>4,206</u>	<u>1,000</u>	<u>1,075</u>	<u>1,171</u>	<u>1,546</u>	<u>4,792</u>	<u>1,715</u>	<u>1,727</u>	<u>1,738</u>	<u>1,750</u>	<u>6,929</u>
Net Income / (Loss)	<u>2,062</u>	<u>1,860</u>	<u>2,066</u>	<u>1,571</u>	<u>7,559</u>	<u>1,858</u>	<u>1,996</u>	<u>2,176</u>	<u>2,870</u>	<u>8,899</u>	<u>3,185</u>	<u>3,206</u>	<u>3,228</u>	<u>3,249</u>	<u>12,869</u>
EPS	<u>0.29</u>	<u>0.26</u>	<u>0.29</u>	<u>0.22</u>	<u>1.05</u>	<u>0.26</u>	<u>0.28</u>	<u>0.30</u>	<u>0.39</u>	<u>1.23</u>	<u>0.44</u>	<u>0.44</u>	<u>0.44</u>	<u>0.45</u>	<u>1.76</u>
Shares Outstanding	7,148	7,168	7,186	7,192	7,175	7,200	7,225	7,250	7,275	7,238	7,300	7,300	7,300	7,300	7,300
<u>Margin Analysis</u>															
Gross margin	26.1%	27.9%	27.3%	24.6%	26.5%	26.0%	26.5%	27.0%	29.0%	27.1%	30.0%	30.0%	30.0%	30.0%	30.0%
SG&A	16.9%	19.0%	16.6%	16.1%	17.1%	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%	16.8%
Operating margin	9.2%	8.2%	8.7%	7.0%	8.3%	8.0%	8.6%	9.1%	11.9%	9.4%	13.2%	13.2%	13.2%	13.2%	13.2%
Pretax margin	9.2%	8.4%	9.0%	7.2%	8.4%	8.3%	8.8%	9.3%	12.1%	9.6%	13.4%	13.4%	13.4%	13.4%	13.4%
Tax rate	35.0%	35.0%	35.0%	38.4%	35.8%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
<u>Year / Year Growth</u>															
Total Revenues	2.7%	-5.0%	2.0%	0.8%	0.1%	0.0%	2.9%	1.7%	3.2%	1.9%	5.6%	5.1%	2.9%	2.5%	4.0%
Net Income	1.6%	(37.6)%	(28.4)%	(53.5)%	(33.0)%	(9.9)%	7.3%	5.3%	82.7%	17.7%	71.4%	60.7%	48.4%	13.2%	44.6%
EPS	0.7%	(38.3)%	(29.2)%	(53.9)%	(33.6)%	(10.6)%	6.4%	4.4%	80.6%	16.7%	69.1%	59.0%	47.4%	12.8%	43.4%

Source: Company filings and Taglich Brothers' estimates

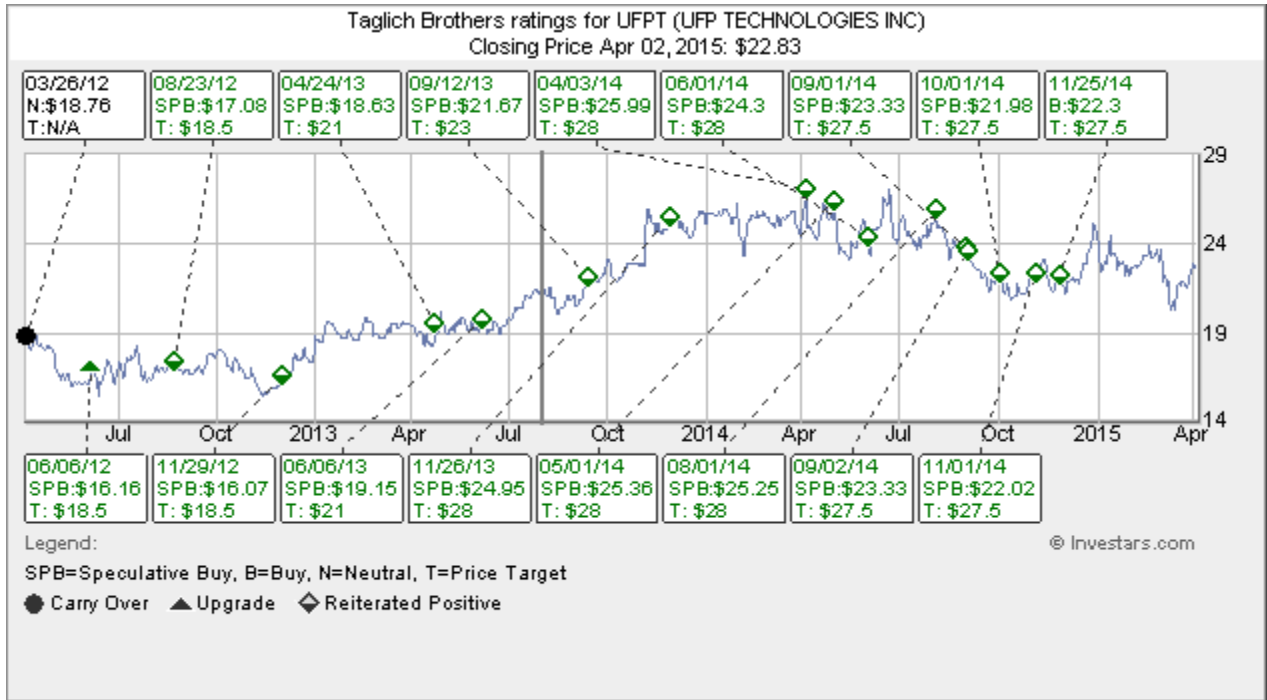
UFP Technologies, Inc.

Statement of Cash Flows for the Periods Ended  
(in thousands \$)

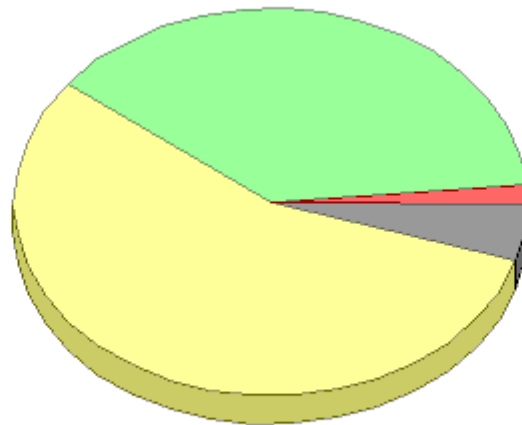
	2012A	2013A	2014A	2015E	2016E
Net income	10,895	11,276	7,559	8,899	12,869
Depreciation & amortization	2,928	4,084	4,376	5,232	5,346
Gain on acquisition	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(12)	11	5	-	-
Share-based compensation	860	924	1,119	1,200	1,200
Stock issued in lieu of compensation	-	-	-	-	-
Excess tax benefit on share-based compensation	(832)	(818)	(1,219)	(1,219)	(1,219)
Deferred income taxes	610	740	1,232	536	892
Cash earnings	14,449	16,217	13,072	14,648	19,088
<i>Changes in assets and liabilities</i>					
Receivables	(842)	804	562	(318)	(674)
Inventories	801	(1,353)	(1,845)	(129)	8
Prepaid expenses	(65)	(36)	26	-	-
Refundable income taxes	(695)	994	(436)	(90)	327
Accounts payable	384	(1,007)	2,317	54	(3)
Accrued expenses and other	2,143	1,272	(2,243)	101	214
Retirement and other liabilities	190	(417)	(181)	-	-
Other assets	(203)	(368)	(146)	-	-
(Increase) decrease in working capital	1,713	(111)	(1,946)	(383)	(129)
<b>Net Cash Provided by Operations</b>	<b>16,162</b>	<b>16,106</b>	<b>11,126</b>	<b>14,266</b>	<b>18,959</b>
Additions to property, plant and equipment	(11,994)	(5,830)	(13,436)	(12,800)	(6,000)
Escrow deposit	-	-	-	-	-
Redemption of cash value life insurance	-	37	-	-	-
Proceeds from sale of property, plant and equipment	86	1	112	-	-
Acquisitions	(3,596)	(600)	-	-	-
<b>Net Cash Used in Investing</b>	<b>(15,504)</b>	<b>(6,392)</b>	<b>(13,324)</b>	<b>(12,800)</b>	<b>(6,000)</b>
Proceeds from long-term borrowings	4,384	580	-	-	-
Distribution to United Development Company partners	(1,196)	-	-	-	-
Tax benefit from exercise of non-qualified stock options	832	818	1,219	1,219	1,219
Proceeds from exercise of stock options	365	191	336	350	350
Payment of statutory withholdings for stock options exercised	(672)	(879)	(831)	(850)	(850)
Principal repayments of long-term debt	(740)	(6,601)	(977)	(1,000)	(873)
Payment of contingent note payable	-	-	(800)	-	-
Principle repayments of capital lease obligations	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-
<b>Net Cash Provided by (Used in) Financing</b>	<b>2,973</b>	<b>(5,891)</b>	<b>(1,053)</b>	<b>(281)</b>	<b>(154)</b>
<b>Net Change in Cash</b>	<b>3,631</b>	<b>3,823</b>	<b>(3,251)</b>	<b>1,185</b>	<b>12,805</b>
<b>Cash - Beginning of Period</b>	<b>29,849</b>	<b>33,480</b>	<b>37,303</b>	<b>34,052</b>	<b>35,237</b>
<b>Cash - End of Period</b>	<b>33,480</b>	<b>37,303</b>	<b>34,052</b>	<b>35,237</b>	<b>48,042</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



38.1 % Buy 55.56 % Hold 4.76 % Not Rated 1.59 % Sell

<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	2	8
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not 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 mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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### **Analyst Certification**

**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.**

### **Public Companies Mentioned in this Report**

Graphic Packaging (NYSE: GPK)  
Packaging Corp. of America (NYSE: PKG)  
Greif (NYSE: GEF)  
Bemis Company (NYSE: BMS)  
Sealed Air Corp. (NYSE: SEE)

### **Meaning of Ratings**

**Buy** – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

**Speculative Buy** – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

**Neutral** – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

**Sell** – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

**Dropping Coverage** – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

### **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.**

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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.