

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

Research Report - Update

UFP Technologies, Inc.

Rating: Speculative Buy

John Nobile

April 19, 2001

UFPT \$1.85 — (NASDAQ NM)

	FYE (1999)	FYE (2000)	FYE (2001)E	FYE (2002)E
Revenues (millions)	\$58.8	\$74.5	\$68.0	\$75.0
Earnings per share (diluted)	\$0.35	\$0.25	\$0.06	\$0.31

52week range	\$1.25 – \$3.50	Fiscal year ends:	December
Shares outstanding (millions)	4.4	Revenue per share (TTM)	\$16.92
Trading float (millions)	1.3	Price/Sales (TTM)	0.11X
Insider Ownership	70%	Price/Sales (2002)	0.11X
Book value/share	\$3.91	Price/Earnings (TTM)	7.52X
Price/Book	0.47X	Price/Earnings (2002)	5.97X

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

Key investment considerations:

- *We are maintaining our speculative buy rating for shares of UFP Technologies (UFPT) with an adjusted 21-month price target of \$2.80 - \$3.40 per share.*
- *Shares of UFP Technologies are currently undervalued in relation to comparable companies. UFPT trades at multiples of 7.5X earnings, 0.1X sales and 0.5X book value. In comparison, UFP Technologies' peer group trades at average multiples of 10.7X earnings, 2.6X sales and 1.9X book value.*
- *UFP Technologies expects to post a loss for the first quarter of 2001 due to the weak economic outlook for the automotive industry and the loss of a major automotive program. However, UFP Technologies expects results to gradually improve, as new programs are added during the course of the year.*
- *For 2001, we estimate sales will decrease 9% to \$68 million and net earnings will decrease 77% to \$247,000 or \$0.06 per share. For 2002, we estimate sales will increase 10% to \$75 million and net earnings will increase 451% to \$1.4 million or \$0.31 per share over 2001 levels.*

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

Recent Financial Results

For the twelve month period ended December 31, 2000, versus the same period in 1999:

- Net sales increased 26.7% to \$74.5 million from \$58.8 million.
- Net income decreased 36.1% to \$1.1 million or \$0.25 per share from \$1.7 million or \$0.35 per share.

Although sales were up for the year, margins were down due to the higher cost of sales associated with Simco. Simco's margins were dilutive primarily due to a large unprofitable job that ended in the third quarter. Interest expense nearly doubled for the year to \$1.2 million due to financing of the Simco acquisition as well as rising interest rates.

Cash and cash equivalents decreased to \$94,000 from \$349,000 a year earlier. Cash provided by operations was \$3.6 million versus \$1.3 million a year earlier. Cash used in investing was \$8.2 million versus \$1.4 million a year earlier. This large increase was due primarily from \$5.8 million spent on the Simco acquisition and capital expenditures of \$2.4 million. Cash provided by financing was \$4.4 million due primarily to a \$6.1 million increase in long-term debt offset by a \$1.5 million repayment of capital leases. EBITDA increased 16% for the year to \$6.5 million.

For 2001, the Company has no significant additional capital commitments, but plans on adding additional machinery to increase capacity and may consider acquisitions that are complementary to its business. UFP Technologies believes that its existing resources, including cash generated from operations, will be sufficient to meet its cash requirements through the end of 2001.

Outlook

We believe 2001 will start off weak for UFP Technologies but show signs of improvement as the year progresses. Weak economic conditions in the automotive industry, as well as the loss of a major automotive program, have put a damper on a significant portion of future revenues. The Company was informed by one of its key Tier-1 customers in its automotive division, that it is taking a \$5.5 million annual program in-house in order to cut costs. To combat the reduced sales from the automotive division, the Company is planning to combine their Detroit operations under one roof and reduce that workforce by one third. Regardless, UFP Technologies anticipates having to absorb losses in Detroit this year and is expecting to post a loss for the first quarter of 2001. However, the Company expects results to gradually improve, as new programs are added during the course of the year.

Along with the weak outlook in the automotive division, which makes up approximately 15% of total revenues, the packaging side of the business, which makes up the remaining 85% of total revenues, is also expected to start off weak. With the current weakness in the U.S. economy, manufacturers are producing and selling less, directly affecting the companies that produce the material needed to package and protect their products. According to First Call, overall industry projections call for a decline in earnings of 24% in 2001. However, for 2002, industry earnings are projected to increase by over 59%.

Taking into account the industry projections, the loss of a major automotive program and that UFP Technologies' sales and earnings for the past five years has grown at a rate approximately 50% higher than the overall industry, we estimate 2001 revenues will decline 9% to \$68 million and net income will decline 77% to \$247,000 or \$0.06 per share. For 2002, we estimate sales will increase 10% to \$75 million and net earnings will increase 451% to \$1.4 million. The large swing in earnings from year to year can be attributed to the loss we anticipate in the first half of 2001, with results gradually improving from the second half on. Applying the historic Price/Earnings multiple of 10X to our projection of \$0.31 earnings per share for 2002, we arrive at a 21-month price target of \$2.80 to \$3.40 per share.

Other Considerations*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.

Patents and other proprietary rights-

The Company relies upon trade secret and patent protection to protect its technology. It currently has U.S. patents for its molded fiber technology, foam and packaging technologies, rubber mat technologies, patterned nail file technologies, and superforming processes. There are also patent applications that are pending. While we do not believe there will be any problems relating to the protection that these patents provide, there can be no assurance that this protection will not be challenged or circumvented by others. The expiration dates for the patents range from February 2003 through October 2017.

Liquidity concerns-

With only 4.4 million shares outstanding and 1.3 million in the float, liquidity issues must be considered. Average daily volume is less than 5,000 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.

Comparable Company Analysis

<u>Company Name</u>	<u>Symbol</u>	<u>Market Capitalization</u> <u>(\$M)</u>	<u>Price/Earnings</u>	<u>Price/Sales</u>	<u>Price/Book</u>	<u>Cash Per Share</u> <u>(\$)</u>	<u>Return on Equity</u>	<u>Debt/Equity</u>
Peak International Graphic Packaging	PEAK	79.9	6.6	0.9	0.8	2.31	13.0%	0
Polyair Inter Pack Air Packaging Tech.	PPK	16.6	5.6	0.2	0.9	0.17	16.4%	1.6
Carmel Container Systems	AIRP	14.9	N/A	14.4	9.5	0.03	206.7%	0.2
RADVA Corporation	KML	11.8	51.7	0.1	N/A	N/A	N/A	N/A
	RDVA	0.9	N/A	0.1	0.2	N/A	16.2%	1.4
Average		32.1	10.7	2.6	1.9	0.4	0.4	0.7
UFP Technologies	UFPT	8.1	7.5	0.1	0.5	0.0	6.5%	0.9

Conclusion

We reiterate our speculative buy rating for shares of UFP Technologies (UFPT) with an adjusted 21-month price target of \$2.80 to \$3.40 per share.

- Shares of UFPT are currently undervalued in relation to comparable companies. UFPT trades at multiples of 7.5X earnings, 0.1X sales and 0.5X book value. In comparison, the average of the six companies listed above trade at multiples of 10.7X earnings, 2.6X sales and 1.9X book value.
- First Call industry projections call for earnings to increase by 59% in 2002 over 2001 levels.
- We expect the Company to break even in the second quarter of 2001 and a return to profitability from the third quarter on.

Price Performance of UFP Technologies



** 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 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, and 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. 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 <u>2000</u>	31-Dec <u>1999</u>
Assets		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 94	\$ 349
Accounts receivable	10,693	9,677
Inventories	6,780	5,192
Prepaid expenses and other current assets	<u>946</u>	<u>538</u>
Total Current Assets	18,513	15,756
Property and equipment, net	14,453	10,566
Goodwill, net	6,725	4,524
Other assets	<u>2,661</u>	<u>1,021</u>
Total Assets	<u>\$ 42,352</u>	<u>\$ 31,867</u>
 Liabilities & shareholders' investment		
<i>Current Liabilities:</i>		
Notes payable	\$ 4,737	\$ 5,000
Current portion of long-term debt	1,057	64
Current portion of capital lease obligations	290	948
Accounts payable	4,440	2,438
Accrued taxes and other expenses	<u>3,850</u>	<u>3,757</u>
Total current liabilities	14,374	12,207
Long-term debt	7,174	2,111
Capital lease obligations	415	595
Other liabilities	<u>862</u>	<u>746</u>
Total liabilities	22,825	15,659
Total stockholder's equity	<u>17,527</u>	<u>16,208</u>
Total liabilities & stockholder's equity	<u>\$ 40,352</u>	<u>\$ 31,867</u>

Taglich Brothers, Inc.

UFP Technologies, Inc.

Annual Income Statements for the Years Ended
(in thousands)

	<u>FYE(12/98)</u>	<u>FYE(12/99)</u>	<u>FYE(12/00)</u>	<u>FYE(12/01)E</u>	<u>FYE(12/02)E</u>
Net sales	\$ 47,220	\$ 58,801	\$ 74,491	\$ 68,000	\$ 75,000
Cost of sales	<u>34,140</u>	<u>43,939</u>	<u>56,870</u>	<u>51,350</u>	<u>56,220</u>
Gross profit	13,080	14,862	17,621	16,650	18,780
<i>Gross Margin</i>	27.70%	25.28%	23.66%	24.49%	25.04%
SG&A	<u>9,906</u>	<u>11,582</u>	<u>14,236</u>	<u>14,400</u>	<u>14,900</u>
Operating income	3,174	3,280	3,385	2,250	3,880
<i>Operating Margin</i>	6.72%	5.58%	4.54%	3.31%	5.17%
Interest expense	(447)	(641)	(1,221)	(1,400)	(1,400)
Other income (expense)	<u>61</u>	<u>191</u>	<u>(162)</u>	<u>40</u>	<u>40</u>
Income before taxes	2,788	2,830	2,002	890	2,520
Income tax	<u>1,141</u>	<u>1,136</u>	<u>921</u>	<u>643</u>	<u>1,158</u>
<i>Tax rate</i>	40.93%	40.14%	46.00%	72.25%	45.95%
Net Income / (Loss)	<u>\$ 1,647</u>	<u>\$ 1,694</u>	<u>\$ 1,081</u>	<u>\$ 247</u>	<u>\$ 1,362</u>
Basic EPS	<u>\$ 0.35</u>	<u>\$ 0.35</u>	<u>\$ 0.25</u>	<u>\$ 0.06</u>	<u>\$ 0.31</u>
Diluted EPS	<u>\$ 0.34</u>	<u>\$ 0.35</u>	<u>\$ 0.25</u>	<u>\$ 0.06</u>	<u>\$ 0.31</u>
Basic Shares Outstanding	4,682	4,809	4,374	4,374	4,374
Diluted Shares Outstanding	4,830	4,896	4,386	4,386	4,386
<u>Percent of Revenue</u>					
Cost of goods sold	72.30%	74.72%	76.34%	75.51%	74.96%
SG&A	20.98%	19.70%	19.11%	21.18%	19.87%
<u>Year / Year Growth</u>					
Total Revenues	3.89%	24.53%	26.68%	-8.71%	10.29%
Net Income	25.82%	2.85%	-36.19%	-77.15%	451.42%
EPS	25.93%	1.47%	-28.77%	-77.15%	451.42%

UFP Technologies, Inc.

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

	<u>Q1(3/01)E</u>	<u>Q2(6/01)E</u>	<u>Q3(9/01)E</u>	<u>Q4(12/01)E</u>	<u>FYE(12/01)E</u>
Net sales	\$ 14,500	\$ 16,500	\$ 18,000	\$ 19,000	\$ 68,000
Cost of sales	<u>11,070</u>	<u>12,540</u>	<u>13,520</u>	<u>14,220</u>	<u>51,350</u>
Gross profit	3,430	3,960	4,480	4,780	16,650
<i>Gross Margin</i>	23.66%	24.00%	24.89%	25.16%	24.49%
SG&A	<u>3,600</u>	<u>3,600</u>	<u>3,600</u>	<u>3,600</u>	<u>14,400</u>
Operating income	(170)	360	880	1,180	2,250
<i>Operating Margin</i>	-1.17%	2.18%	4.89%	6.21%	3.31%
Interest expense	(350)	(350)	(350)	(350)	(1,400)
Other income (expense)	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>40</u>
Income before taxes	(510)	20	540	840	890
Income tax	<u>-</u>	<u>9</u>	<u>248</u>	<u>386</u>	<u>643</u>
<i>Tax rate</i>	0.00%	45.00%	45.93%	45.95%	72.25%
Net Income / (Loss)	<u>\$ (510)</u>	<u>\$ 11</u>	<u>\$ 292</u>	<u>\$ 454</u>	<u>\$ 247</u>
Basic EPS	<u>\$ (0.12)</u>	<u>\$ 0.00</u>	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.06</u>
Diluted EPS	<u>\$ (0.12)</u>	<u>\$ 0.00</u>	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.06</u>
Basic Shares Outstanding	4,374	4,374	4,374	4,374	4,374
Diluted Shares Outstanding	4,386	4,386	4,386	4,386	4,386
<u>Percent of Revenue</u>					
Cost of sales	76.34%	76.00%	75.11%	74.84%	75.51%
SG&A	24.83%	21.82%	20.00%	18.95%	21.18%
<u>Year / Year Growth</u>					
Total Revenues	-20.70%	-15.02%	-4.75%	6.18%	-8.72%
Net Income	NMF	-96.18%	32.73%	27.89%	-77.15%
EPS	NMF	-100.00%	40.00%	25.00%	-76.00%

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>FYE(12/02)E</u>
Net sales	\$ 17,500	\$ 18,800	\$ 18,700	\$ 20,000	\$ 75,000
Cost of sales	<u>13,210</u>	<u>14,080</u>	<u>14,010</u>	<u>14,920</u>	<u>56,220</u>
Gross profit	4,290	4,720	4,690	5,080	18,780
<i>Gross Margin</i>	24.51%	25.11%	25.08%	25.40%	25.04%
SG&A	<u>3,650</u>	<u>3,700</u>	<u>3,750</u>	<u>3,800</u>	<u>14,900</u>
Operating income	640	1,020	940	1,280	3,880
<i>Operating Margin</i>	3.66%	5.43%	5.03%	6.40%	5.17%
Interest expense	(350)	(350)	(350)	(350)	(1,400)
Other income (expense)	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>40</u>
Income before taxes	300	680	600	940	2,520
Income tax	<u>138</u>	<u>312</u>	<u>276</u>	<u>432</u>	<u>1,158</u>
<i>Tax rate</i>	46.00%	45.88%	46.00%	45.96%	45.95%
Net Income / (Loss)	<u>\$ 162</u>	<u>\$ 368</u>	<u>\$ 324</u>	<u>\$ 508</u>	<u>\$ 1,362</u>
Basic EPS	<u>\$ 0.04</u>	<u>\$ 0.08</u>	<u>\$ 0.07</u>	<u>\$ 0.12</u>	<u>\$ 0.31</u>
Diluted EPS	<u>\$ 0.04</u>	<u>\$ 0.08</u>	<u>\$ 0.07</u>	<u>\$ 0.12</u>	<u>\$ 0.31</u>
Basic Shares Outstanding	4,374	4,374	4,374	4,374	4,374
Diluted Shares Outstanding	4,386	4,386	4,386	4,386	4,386
<u>Percent of Revenue</u>					
Cost of goods sold	75.49%	74.89%	74.92%	74.60%	74.96%
SG&A	20.86%	19.68%	20.05%	19.00%	19.87%
<u>Year / Year Growth</u>					
Total Revenues	20.69%	13.94%	3.89%	5.26%	10.29%
Net Income	131.76%	NMF	10.96%	11.89%	451.42%
EPS	133.33%	NMF	0.00%	20.00%	416.67%

UFP Technologies, Inc.

Statement of Cash Flows for the Fiscal Years Ended
(in thousands)

	31-Dec <u>2000</u>	31-Dec <u>1999</u>
<i>Cash Flows from Operating Activities</i>		
Net Income	\$ 1,081	\$ 1,693
Depreciation & amortization	3,081	2,300
Equity in unconsolidated affiliate	(29)	(22)
(Gain) loss on disposal of PP&E	192	(169)
Stock issued in lieu of compensation	171	186
Deferred income taxes	-	331
<i>Changes in assets and liabilities</i>		
Receivables	2,064	(1,809)
Inventories	47	(1,100)
Prepaid expenses	5	2
Accounts payable	(1,607)	(151)
Accrued taxes and other expenses	(1,508)	346
Retirement and other liabilities	9	(164)
Cash surrender value of life insurance	128	(76)
Increase in other assets	<u>(80)</u>	<u>(109)</u>
Net Cash Provided by Operations	3,554	1,258
<i>Cash Flows from Investing Activities</i>		
Additions to property, plant and equipment	(2,437)	(1,949)
Acquisition of operating assets, less cash	(5,802)	-
Payments received on advances to affiliate	44	26
Proceeds from disposal of PP&E	<u>23</u>	<u>534</u>
Net Cash Used in Investing	(8,172)	(1,389)
<i>Cash Flows from Financing Activities</i>		
Net borrowings under notes payable	(263)	850
Proceeds from long-term borrowings	6,120	1,603
Capital stock repurchase	0	(1,603)
Proceeds from sales of common stock	67	37
Principal repayment of long-term debt	(64)	(56)
Principal repayment of capital lease obligations	<u>(1,497)</u>	<u>(863)</u>
Net cash Provided Financing	4,363	(32)
Net change in Cash	(255)	(163)
Cash - Beginning of Period	<u>349</u>	<u>512</u>
Cash - End of Period	<u>\$ 94</u>	<u>\$ 349</u>

Taglich Brothers, Inc.