

# 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

**UFPT \$1.30 — (NASDAQ SC)**

August 20, 2001

	FYE (1999)	FYE (2000)	FYE (2001)E	FYE (2002)E
Revenues (millions)	\$58.8	\$74.5	\$64.2	\$75.5
Earnings per share (diluted)	\$0.35	\$0.25	\$(0.26)	\$0.18

52week range	\$1.15 – \$2.63	Fiscal year ends:	December
Shares outstanding (millions)	4.2	Revenue per share (TTM)	\$15.98
Trading float (millions)	2.4	Price/Sales (TTM)	0.08X
Insider Ownership	43%	Price/Sales (2002)	0.07X
Book value/share	\$3.95	Price/Earnings (TTM)	NA
Price/Book	0.33X	Price/Earnings (2002)	7.22X

*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) with a 16-month price target of \$2.89 per share.*
- *UFP Technologies posted a loss for the second quarter of 2001 primarily due to reduced consumer/electronics packaging and the loss of a major automotive program. For the quarter, net sales decreased 20% to \$15.5 million from \$19.4 million in 2000. The net loss was \$269,000 or \$(0.06) per share versus net income of \$288,000 or \$0.07 per share in 2000.*
- *Expectations are for 9 new automotive programs to be launched between June and October 2001 with combined annual revenues estimated at \$5.3 million.*
- *For 2001, we estimate sales will decrease 14% to \$64.2 million and UFP technologies will post a net loss of \$1.1 million or \$(0.26) per share. For 2002, we estimate sales will increase 18% to \$75.5 million and net earnings will increase 168% to \$747,000 or \$0.18 per share over 2001 levels.*

*\*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 three month period ended June 30, 2001, versus the same period in 2000:

- Net sales decreased 20% to \$15.5 million from \$19.4 million.
- The net loss was \$269,000 or \$(0.06) per share versus net income of \$288,000 or \$0.07 per share.

The decrease in net sales was primarily related to a slowdown in consumer/electronics packaging as well as the loss of a large customer that brought a \$5.7 million program in-house. In light of the overall soft demand for the Company's products, UFP Technologies has reduced costs resulting in lower cost of sales and SG&A expenses. Cost of sales was reduced by approximately \$2.4 million and SG&A expenses were reduced by approximately \$500,000. Even though UFP Technologies has reduced their cost of sales by more than \$2 million, gross margins decreased to 19.5% from 23.7%. Despite the net loss for the quarter, EBITDA remained positive at over \$600,000.

As of June 30, 2001, cash was \$27,000. Although the Company reported a net loss for the first six months of 2001, cash used in operations was only \$3,000. UFP Technologies has working capital of approximately \$3.5 million and long-term debt of \$7.4 million. The Company has a \$10 million revolving line of credit, of which \$6 million was outstanding on June 30, 2001 and a \$4 million acquisition line of credit of which there is no amount outstanding. The Company has no significant capital commitments, but plans on investing in capital equipment to support its operations. UFP Technologies believes that its existing resources will be sufficient to meet its cash requirements through at least the next twelve months.

### ***Outlook***

As UFP Technologies' business is closely tied to the automotive and electronics industries, the outlook for those industries will have a big impact on the Company's results. Weak economic conditions in the automotive industry, and the loss of a major automotive program, have put a damper on a significant portion of UFP Technologies' current and future revenues. Also, with the current weakness in the U.S. economy, computer/electronics manufacturers are producing and selling less, directly affecting the companies that produce the material needed to package and protect their products. These factors combine to show a weak near-term outlook for UFPT, but we believe that the Company's results should gradually improve from the fourth quarter on as economic conditions are expected to improve and new automotive programs are added.

The Federal Reserve, in an effort to revive the economy, has cut short-term interest rates six times this year, for a total reduction of 2.75 percentage points in the past eight months. Because it generally takes at least six months for interest rate cuts to be felt in the economy, we believe the cuts will begin to take affect in the fourth quarter of the year. Federal Reserve officials expressed optimism about the U.S. economy, predicting growth would start to pick up in the latter half of the year.

UFPT is investing in areas that show strong demand while reducing costs where demand is weak. In this regard, the Company invested \$600,000 in capital assets. Management stated that current expectations are for 9 new automotive programs to be launched between June and October 2001 with combined annual revenues estimated at \$5.3 million.

Taking into account the current industry and economic conditions, the expectations for nine new automotive programs, the economic projections and that UFP Technologies' sales growth rate for the past five years has been approximately double the overall industry's, we estimate the Company will report a 14% decrease in sales for 2001 of \$64.2 million and post a net loss of \$1.1 million or \$(0.26) per share. For 2002, we estimate sales will increase 18% to \$75.5 million and net earnings will increase 168% to \$747,000 thousand or \$0.18 per share. The large swing in earnings from year to year can be attributed to the large loss in the first three quarters of 2001, with

results gradually improving from the fourth quarter on. Applying the historic average Price/Earnings multiple of 13X to our projected earnings per share of \$0.18 for 2002, we arrive at a 16-month price target of \$2.34 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 7.3% using the Capital Asset Pricing Model. This model values shares of UFPT at a price of \$3.44. Averaging these two valuation models puts our anticipated 16-month price target for shares of UFPT at \$2.89.

### ***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.

#### *Capital resources-*

With only \$27,000 in cash as of June 30, 2001 along with the lack of operating income in the first two quarters, the ability to raise additional capital is a concern. As mentioned above, the Company has a \$10 million revolving line of credit, of which \$6 million was outstanding as of June 30, 2001. Also, the current portion of all debt is \$7.8 million. Because of the limited funding available on this bank loan, and no assurance of additional financing, shares of UFP Technologies are recommended only for investors who can take on above-average risk.

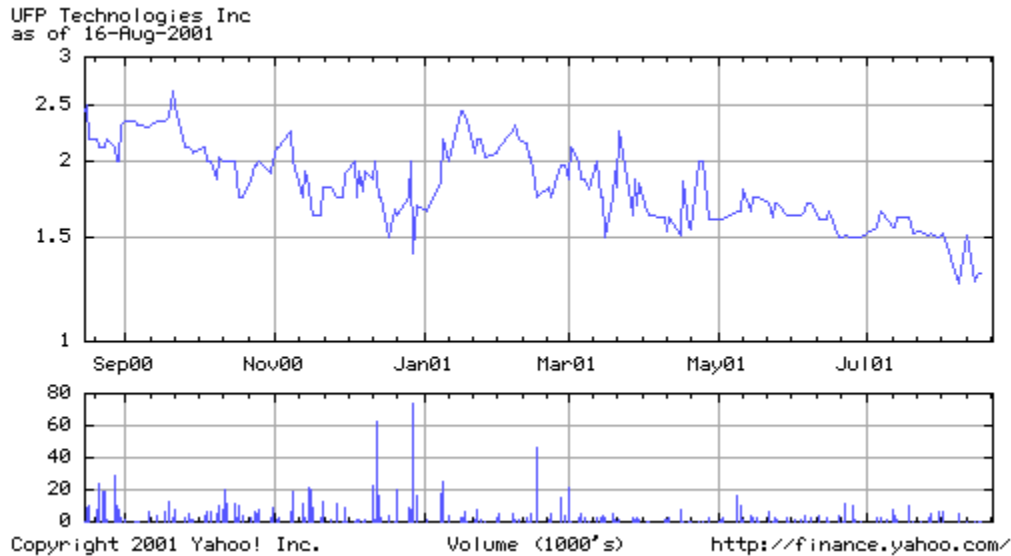
#### *Liquidity concerns-*

With only 4.2 million shares outstanding and 2.4 million in the float, liquidity issues must be considered. Average daily volume is less than 2,000 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.

### ***Conclusion***

We reiterate our speculative buy rating for shares of UFP Technologies (UFPT) with a 16-month price target of \$2.89 per share. The nine new automotive programs which are expected to be launched over the next few months should add approximately \$5.3 million to revenue on an annual basis and we believe that as industry and economic conditions improve, UFP Technologies will return to profitability in 2002.

**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. 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)

	30-Jun <u>2001</u>	31-Dec <u>2000</u>
<b>Assets</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 27	\$ 94
Accounts receivable	9,988	10,693
Inventories	6,298	6,780
Prepaid expenses and other current assets	<u>1,741</u>	<u>946</u>
<b>Total Current Assets</b>	<b>18,054</b>	<b>18,513</b>
Property and equipment, net	12,382	12,453
Goodwill, net	6,506	6,725
Other assets	<u>2,598</u>	<u>2,661</u>
<b>Total Assets</b>	<b><u>\$ 39,540</u></b>	<b><u>\$ 40,352</u></b>
 <b>Liabilities &amp; shareholders' investment</b>		
<i>Current Liabilities:</i>		
Notes payable	\$ 5,990	\$ 4,737
Current portion of long-term debt	1,466	1,057
Current portion of capital lease obligations	362	290
Accounts payable	3,464	4,440
Accrued taxes and other expenses	<u>3,225</u>	<u>3,850</u>
<b>Total current liabilities</b>	<b>14,507</b>	<b>14,374</b>
Long-term debt	7,415	7,174
Capital lease obligations	183	415
Other liabilities	<u>891</u>	<u>862</u>
<b>Total liabilities</b>	<b>22,996</b>	<b>22,825</b>
<b>Total stockholder's equity</b>	<b><u>16,544</u></b>	<b><u>17,527</u></b>
<b>Total liabilities &amp; stockholder's equity</b>	<b><u>\$ 39,540</u></b>	<b><u>\$ 40,352</u></b>

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>
<b>Net sales</b>	<b>\$ 47,220</b>	<b>\$ 58,801</b>	<b>\$ 74,491</b>	<b>\$ 64,247</b>	<b>\$ 75,500</b>
Cost of sales	<u>34,140</u>	<u>43,939</u>	<u>56,870</u>	<u>51,442</u>	<u>58,501</u>
Gross profit	13,080	14,862	17,621	12,805	16,999
<i>Gross Margin</i>	27.70%	25.28%	23.66%	19.93%	22.52%
SG&A	<u>9,906</u>	<u>11,582</u>	<u>14,236</u>	<u>13,742</u>	<u>14,600</u>
Operating income	3,174	3,280	3,385	(937)	2,399
<i>Operating Margin</i>	6.72%	5.58%	4.54%	-1.46%	3.18%
Interest expense	(447)	(641)	(1,221)	(1,079)	(1,040)
Other income (expense)	<u>61</u>	<u>191</u>	<u>(162)</u>	<u>16</u>	<u>-</u>
Income before taxes	2,788	2,830	2,002	(2,000)	1,359
Income tax	<u>1,141</u>	<u>1,136</u>	<u>921</u>	<u>(905)</u>	<u>612</u>
<i>Tax rate</i>	40.93%	40.14%	46.00%	45.25%	45.03%
<b>Net Income / (Loss)</b>	<b><u>\$ 1,647</u></b>	<b><u>\$ 1,694</u></b>	<b><u>\$ 1,081</u></b>	<b><u>\$ (1,095)</u></b>	<b><u>\$ 747</u></b>
<b>Basic EPS</b>	<b><u>\$ 0.35</u></b>	<b><u>\$ 0.35</u></b>	<b><u>\$ 0.25</u></b>	<b><u>\$ (0.26)</u></b>	<b><u>\$ 0.18</u></b>
<b>Diluted EPS</b>	<b><u>\$ 0.34</u></b>	<b><u>\$ 0.35</u></b>	<b><u>\$ 0.25</u></b>	<b><u>\$ (0.26)</u></b>	<b><u>\$ 0.18</u></b>
Basic Shares Outstanding	4,682	4,809	4,374	4,256	4,227
Diluted Shares Outstanding	4,830	4,896	4,386	4,256	4,227
<u>Percent of Revenue</u>					
Cost of goods sold	72.30%	74.72%	76.34%	80.07%	77.48%
SG&A	20.98%	19.70%	19.11%	21.39%	19.34%
<u>Year / Year Growth</u>					
Total Revenues	3.89%	24.53%	26.68%	-13.75%	17.52%
Net Income	25.82%	2.85%	-36.19%	-201.30%	168.22%
EPS	25.93%	1.47%	-28.77%	-204.39%	168.23%

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)E</u>	<u>Q4(12/01)E</u>	<u>FYE(12/01)E</u>
<b>Net sales</b>	<b>\$ 16,966</b>	<b>\$ 15,481</b>	<b>\$ 14,600</b>	<b>\$ 17,200</b>	<b>\$ 64,247</b>
Cost of sales	<u>13,568</u>	<u>12,460</u>	<u>11,826</u>	<u>13,588</u>	<u>51,442</u>
Gross profit	3,398	3,021	2,774	3,612	12,805
<i>Gross Margin</i>	20.03%	19.51%	19.00%	21.00%	19.93%
SG&A	<u>3,805</u>	<u>3,237</u>	<u>3,300</u>	<u>3,400</u>	<u>13,742</u>
Operating income	(407)	(216)	(526)	212	(937)
<i>Operating Margin</i>	-2.40%	-1.40%	-3.60%	1.23%	-1.46%
Interest expense	(275)	(284)	(260)	(260)	(1,079)
Other income (expense)	<u>-</u>	<u>16</u>	<u>-</u>	<u>-</u>	<u>16</u>
Income before taxes	(682)	(484)	(786)	(48)	(2,000)
Income tax	<u>(314)</u>	<u>(216)</u>	<u>(354)</u>	<u>(22)</u>	<u>(905)</u>
<i>Tax rate</i>	46.04%	44.63%	45.00%	45.00%	45.27%
<b>Net Income / (Loss)</b>	<b><u>\$ (368)</u></b>	<b><u>\$ (268)</u></b>	<b><u>\$ (432)</u></b>	<b><u>\$ (26)</u></b>	<b><u>\$ (1,095)</u></b>
<b>Basic EPS</b>	<b><u>\$ (0.08)</u></b>	<b><u>\$ (0.06)</u></b>	<b><u>\$ (0.10)</u></b>	<b><u>\$ (0.01)</u></b>	<b><u>\$ (0.26)</u></b>
<b>Diluted EPS</b>	<b><u>\$ (0.08)</u></b>	<b><u>\$ (0.06)</u></b>	<b><u>\$ (0.10)</u></b>	<b><u>\$ (0.01)</u></b>	<b><u>\$ (0.26)</u></b>
Basic Shares Outstanding	4,375	4,193	4,227	4,227	4,256
Diluted Shares Outstanding	4,375	4,193	4,227	4,227	4,256
<u>Percent of Revenue</u>					
Cost of sales	79.97%	80.49%	81.00%	79.00%	80.07%
SG&A	22.43%	20.91%	22.60%	19.77%	21.39%
<u>Year / Year Growth</u>					
Total Revenues	-7.20%	-20.27%	-22.74%	-3.88%	-13.75%
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>FYE(12/02)E</u>
<b>Net sales</b>	<b>\$ 17,700</b>	<b>\$ 18,800</b>	<b>\$ 19,000</b>	<b>\$ 20,000</b>	<b>\$ 75,500</b>
Cost of sales	<u>13,806</u>	<u>14,570</u>	<u>14,725</u>	<u>15,400</u>	<u>58,501</u>
Gross profit	3,894	4,230	4,275	4,600	16,999
<i>Gross Margin</i>	22.00%	22.50%	22.50%	23.00%	22.52%
SG&A	<u>3,500</u>	<u>3,600</u>	<u>3,700</u>	<u>3,800</u>	<u>14,600</u>
Operating income	394	630	575	800	2,399
<i>Operating Margin</i>	2.23%	3.35%	3.03%	4.00%	3.18%
Interest expense	(260)	(260)	(260)	(260)	(1,040)
Other income (expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before taxes	134	370	315	540	1,359
Income tax	<u>60</u>	<u>167</u>	<u>142</u>	<u>243</u>	<u>612</u>
<i>Tax rate</i>	45.00%	45.00%	45.00%	45.00%	45.00%
<b>Net Income / (Loss)</b>	<b><u>\$ 74</u></b>	<b><u>\$ 204</u></b>	<b><u>\$ 173</u></b>	<b><u>\$ 297</u></b>	<b><u>\$ 747</u></b>
<b>Basic EPS</b>	<b><u>\$ 0.02</u></b>	<b><u>\$ 0.05</u></b>	<b><u>\$ 0.04</u></b>	<b><u>\$ 0.07</u></b>	<b><u>\$ 0.18</u></b>
<b>Diluted EPS</b>	<b><u>\$ 0.02</u></b>	<b><u>\$ 0.05</u></b>	<b><u>\$ 0.04</u></b>	<b><u>\$ 0.07</u></b>	<b><u>\$ 0.18</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	78.00%	77.50%	77.50%	77.00%	77.48%
SG&A	19.77%	19.15%	19.47%	19.00%	19.34%
<u>Year / Year Growth</u>					
Total Revenues	6.09%	24.02%	30.14%	16.28%	17.52%
Net Income	130.43%	195.91%	140.05%	342.47%	168.22%
EPS	137.50%	200.00%	140.00%	800.00%	169.23%



Statement of Cash Flows for the Six Months Ended  
(in thousands)

	30-Jun <u>2001</u>	30-Jun <u>2000</u>
<i>Cash Flows from Operating Activities</i>		
Net Income	\$ (637)	\$ 506
Depreciation & amortization	1,660	1,500
Stock issued in lieu of compensation	141	171
Loss on disposal of PP&E	-	57
<i>Changes in assets and liabilities</i>		
Receivables	705	561
Inventories	482	(948)
Prepaid expenses	(795)	8
Accounts payable	(976)	(1,682)
Accrued taxes and other expenses	(625)	(661)
Retirement and other liabilities	29	(59)
Decrease (increase) in other assets	<u>13</u>	<u>(22)</u>
<b>Net Cash Provided by Operations</b>	<b>(3)</b>	<b>(569)</b>
<i>Cash Flows from Investing Activities</i>		
Additions to property, plant and equipment	(1,357)	(852)
Payments from affiliated company	38	27
Acquisition of Simco	-	(6,252)
Proceeds from life insurance	-	155
Proceeds from sale of assets	<u>-</u>	<u>23</u>
<b>Net Cash Used in Investing</b>	<b>(1,319)</b>	<b>(6,899)</b>
<i>Cash Flows from Financing Activities</i>		
Net borrowings under notes payable	1,253	2,112
Principal repayments of long-term debt	(8,350)	(29)
Principle repayments of capital lease obligations	(160)	(859)
Proceeds from long-term borrowings	9,000	6,120
Capital stock repurchase	(525)	-
Net proceeds from sale of common stock	<u>37</u>	<u>31</u>
<b>Net cash Provided Financing</b>	<b>1,255</b>	<b>7,375</b>
<b>Net change in Cash</b>	<b>(67)</b>	<b>(93)</b>
<b>Cash - Beginning of Period</b>	<b><u>94</u></b>	<b><u>349</u></b>
<b>Cash - End of Period</b>	<b><u>\$ 27</u></b>	<b><u>\$ 256</u></b>