

Research Report – Update

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

UFP Technologies, Inc.

Rating: Buy

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August 22, 2019

UFPT \$40.68 — (NASDAQ CM)

	2017A	2018A	2019E	2020E
Revenues (millions)	\$147.81	\$190.5	\$202.0	\$214.0
Earnings per share (diluted)	\$1.26	\$1.93	\$2.27	\$2.81

52-Week range	\$46.42 – \$27.80	Fiscal year ends:	December
Shares outstanding as of 8/1/19	7.4 million	Revenue per share (TTM)	\$26.45
Approximate float	6.2 million	Price/Sales (TTM)	1.5X
Market capitalization	\$301 million	Price/Sales (2020)E	1.4X
Tangible book value/share	\$10.22	Price/Earnings (TTM)	18.0X
Price/tangible book	4.0X	Price/Earnings (2020)E	14.5X

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures components, subassemblies, products and packaging utilizing specialized foams, films, and plastics primarily for the medical market. (www.ufpt.com)

Key investment considerations:

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$48.00 per share from \$44.00 based on our increased 2020 EPS estimate and a reduced risk profile.

In 2018, the company made a strategic acquisition (Dielectrics) to grow its higher margin sales to the medical market, which resulted in the majority of UFPT's sales being generated from this growing segment. Dielectrics added sales of \$36.2 million in 2018 on top of 5.7% organic growth in UFPT's sales within the medical market.

The contribution from new medical programs awarded in 2019 and continued growth of the company's product offerings for its medical market customers should drive higher sales and margin expansion through 2020.

We project gross margins of 27.8% in 2020, up from an estimated 26.8% in 2019 and 25.4% in 2018.

Our cash flow projections should enable the company to pay off its long-term debt by the end of 2019 and end 2020 with over \$31 million in cash.

2Q19 revenue (10Q released on 8/9/19) increased 4.9% to \$51.4 million with EPS of \$0.62, up from \$0.54 in the year ago period. We projected sales of \$51.5 million and EPS of \$0.56.

For 2019, we project 6.1% revenue growth to \$202 (prior was \$202.2 million) and EPS of \$2.27 (prior was \$2.22). Our forecast primarily reflects 2Q19 results.

For 2020, we project 5.9% revenue growth to \$214 million (unchanged) and EPS of \$2.81 (prior was \$2.73). Our increased earnings forecast stems from higher gross margins than previously anticipated.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$48.00 per share from \$44.00 based on our increased 2020 EPS estimate and a reduced risk profile. Our reduced risk profile stems from new medical programs awarded in 2019, increased volumes from existing programs, and our cash flow projections that should enable the company to pay off its long-term debt by the end of 2019 and end 2020 with over \$31 million in cash.

In 2018, the company made a strategic acquisition (Dielectrics) to grow its higher margin sales to the medical market, which resulted in the majority of UFPT’s sales being generated from this growing segment. In 2018, Dielectrics added sales of \$36.2 million on top of 5.7% organic growth in UFPT’s sales within the medical market. We project the contribution from new medical programs in 2019 and continued growth of the company’s product offerings for its medical market customers should result in higher sales and margin expansion through 2020.

Shares of UFP Technologies trade at a forward multiple that is higher than its direct competitors (see chart below). We believe this is reflective of the company’s strong growth prospects. With the acquisition of Dielectrics and continued strong growth in medical market sales, we project 24% EPS growth for UFPT versus 6% for its competitors in 2020.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2020 P/E	Projected EPS Growth to 2020
Packaging Corp of America	PKG	100.85	9,547	12.0	13.7	-5%
Sealed Air	SEE	42.28	6,533	15.4	13.8	10%
Graphic Packaging	GPK	13.19	3,877	14.7	13.3	15%
Greif	GEF	32.26	1,746	8.6	8.3	3%
Peer Average				12.7	12.3	6%
Company						
UFP Technologies	UFPT	40.68	301	18.0	14.5	24%

Source: Taglich Brothers estimates, Thomson Reuters

We believe UFPT’s forward P/E multiple should continue to remain above its competitors as strong earnings growth is recognized. We applied a multiple of 17X (unchanged) to our 2020 EPS projection of \$2.81 to obtain a year-ahead value of approximately \$48.00 per share.

Business

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures components, subassemblies, products and packaging utilizing specialized foams, films, and plastics primarily for the medical market. The company’s single-use and single-patient devices and components are used in a wide range of medical devices, disposable wound care products, infection prevention, minimally invasive surgery, wearables, orthopedic soft goods, and orthopedic implant packaging.

UFP Technologies also provides engineered products and components to customers in the automotive, aerospace and defense, consumer, electronics and industrial markets. Typical applications of its products include military uniform and gear components, automotive interior trim, athletic padding, environmentally friendly protective packaging, air filtration, abrasive nail files, and protective cases and inserts.



In 2018, almost 60% of UFPT's sales were to the medical device industry with the remaining industries accounting for between 5.6% (industrial) to 13.1% (consumer) of sales.

The company differentiates itself through the design and production of customized products. With its packaging design expertise, cleanroom fabrication capabilities, and access to an array of advanced medical grade materials, UFPT offers custom packaging solutions to medical device manufacturers that meet the stringent requirements of the medical industry (examples of the company's medical device packaging products are pictured at the bottom right on previous page).

Industry Outlook

We will focus our industry outlook discussion on the medical market as UFPT's sales are predominantly to this end market.

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes, orthopedic implants, and other similar products. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years. IBISWorld forecasted medical device industry average annual sales growth of approximately 2.4% to \$44.1 billion in 2023 from 2019.

IBISWorld cited changing demographics in the US as being favorable to the industry. Although the majority of baby boomers are still under the age of 65, a significant portion of the group will cross this age threshold over the five years to 2023, resulting in annualized growth of 3.2% in the 65-and-over demographic. Medical innovations will continue to expand the average lifespan, with high-tech fields such as biotechnology and 3D printing likely enabling the development of new therapeutic and diagnostic product lines.

The future of the global medical device market looks to have expansion opportunities in public and private hospitals. ResearchandMarkets projects the global medical device market to reach an estimated \$409.5 billion by 2023, growing at a compound annual growth rate (CAGR) of 4.5% from 2018 to 2023. Similar to IBISWorld, ResearchandMarkets expects major drivers of this growth to be healthcare expenditures, technological developments, an aging population, and chronic diseases.

BCC Research estimates the global medical device market to grow from \$521.2 billion in 2017 to \$674.5 billion by 2022 for a CAGR of 5.3%. BCC Research reports stringent regulations as a key growth factor that is specific to the mature markets in the US and Europe. Regulations have compelled medical device manufacturers in those regions to launch sophisticated devices that incorporate new materials, provide in-depth indications, and generate new kinds of data. Clinical research continually demands more technically sophisticated medical devices in this highly competitive market. As such, companies are constantly reinventing their product portfolios to enter new markets and position themselves as major players in the healthcare system.

A growing end market for UFPT's products should bode well for sales through our forecast horizon.

Economic Outlook

Although the majority of the company's revenue is generated by sales to the medical market which are not significantly impacted by changes in the economy, approximately 40% is tied to economically sensitive end markets in the US. The economic outlook for this region could have an adverse effect on the company's sales through our forecast horizon.

In July 2019, the IMF lowered its global economic growth estimate to 3.2% for 2019 and 3.5% for 2020 from earlier (April 2019) estimates of 3.3% for 2019 and 3.6% for 2020. The downward revisions reflect further tariffs on certain Chinese imports by the US and China retaliating by raising tariffs on certain US imports.

The IMF raised its 2019 economic growth estimate for the US to 2.6% from its April 2019 forecast of 2.3%. The 2020 estimate is unchanged at 1.9%. The upward revision for 2019 reflects stronger-than-anticipated first half performance.

The advance estimate of US GDP growth (released on July 26, 2019) showed the US economy grew at an annual rate of 2.1% in 2Q19, down from 3.1% in 1Q19. The 2Q19 US GDP growth estimate reflects increases in consumer and government spending while inventory investment, exports, and business and housing investments decreased.

Competition

The medical contract manufacturing industry is highly competitive as is the foam and plastics converting industry. While there are several national companies that convert foam and plastics, the company's primary competition is from smaller independent regional manufacturing companies that generally market their products in specific geographic areas from neighboring facilities.

UFPT's foam and fiber packaging products 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 custom engineered products face competition primarily from smaller companies that typically concentrate on production of products for specific industries.

Some of UFPT's strengths in the engineered products market are its ability to address its customers' primary vendor selection criteria, including price, product performance, product reliability, and customer service. Other competitive factors include the company's access to a wide variety of materials, its engineering expertise, and its ability to combine foams with other materials such as plastics and laminates.

Company	Sales TTM	Gross Margin
Graphic Packaging	\$6.1B (6/19)	15.5%
Packaging Corp. of America	\$7.1B (6/19)	23.5%
Greif	\$4.1B (4/19)	19.2%
Sealed Air Corp.	\$4.7B (6/19)	31.8%
UFP Technologies	\$197.2M (6/19)	26.4%

Source: Yahoo! Finance

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

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

The company's February 2018 acquisition of Dielectrics added \$36.2 million to UFPT's 2018 sales to the medical market. A full year's contribution from Dielectrics and a growing medical market should help UFPT's sales continue their upward trend in 2019 and 2020. The increase in high margin medical sales should boost margins through our forecast horizon.

2019 Forecast

For 2019, we project revenue growth of 6.1% to \$202 million and net income of \$16.9 million or \$2.27 per share. We previously forecast revenue of \$202.2 million and net income of \$16.6 million or \$2.22 per share. Our forecast primarily reflects 2Q19 results.

We project gross margins increasing to 26.8% from 25.4% in 2018, as higher margin medical sales continue to grow. SG&A expenses should increase to \$30.4 million from \$27.8 million due primarily to increased compensation costs. SG&A margins should increase to 15.1% from 14.6% in 2018. We project operating income growth of 20.6% to \$23.6 million with margins increasing to 11.7% from 10.3%. Our tax rate forecast is 25%.

In 2019, we project \$31.3 million cash from operations on cash earnings of \$26.9 million and a \$4.4 million decrease in working capital primarily due to an increase in other liabilities. We project a \$4.8 million increase in cash to \$8 million at the end of 2019 after debt repayments of \$21.6 million and \$5.5 million of capital expenditures.

2020 Forecast

For 2020, we project revenue growth of 5.9% to \$214 million and net income of \$21 million or \$2.81 per share. We previously forecast revenue of \$214 million and net income of \$20.4 million or \$2.73 per share. Our revised earnings forecast reflects higher gross margins than previously anticipated (27.8% versus 27%) due primarily to a favorable product mix and manufacturing efficiencies. Our revenue forecast reflects a full year's contribution from new medical programs awarded in 2019 and continued growth of the company's medical product offerings.

We project gross margins increasing to 27.8% from our projected 26.8% in 2019 as higher margin medical sales continue to grow as a percentage of total sales. SG&A expenses should increase to \$31 million from our projected \$30.4 million in 2019 due primarily to increased compensation costs. SG&A margins should decrease to 14.5% from 15.1% in 2019. We project operating income growth of 20.1% to \$28.4 million with margins increasing to 13.3% from 11.7%. Our tax rate forecast is 26%.

In 2020, we project \$28.1 million cash from operations on cash earnings of \$30 million and a \$1.9 million increase in working capital primarily due to increased receivables. We project a \$23.2 million increase in cash to \$31.2 million at the end of 2020 after \$5.5 million of capital expenditures.

2Q19 and 1H19 Financial Results

2Q19 - Sales increased 4.9% to \$51.4 million with net income of \$4.6 million or \$0.62 per share, up from \$4 million or \$0.54 per share. We projected sales of \$51.5 million and net income of \$4.2 million or \$0.56 per share.

Growth was primarily due to increased sales to the medical and aerospace & defense markets of 13.1% and 33.6%, respectively. These increases were partially offset by a collective decline in sales to the consumer, electronics and industrial markets of 20.2%. The increase in sales to customers in the medical market was primarily due to strong sales at Dielectrics, as well as increased demand from legacy UFP medical customers. The increase in sales to customers in the aerospace & defense markets was primarily due to increased government spending. The decline in sales to customers in the consumer, electronics and industrial markets was primarily due to decreased demand for molded fiber packaging.

Gross profit increased to \$14.4 million from \$13 million and gross margins increased to 28% from 26.5% due to improved manufacturing overhead coverage and improved manufacturing efficiencies. SG&A expenses increased to \$7.8 million from \$7.4 million due primarily to increased compensation costs. Operating income increased to \$6.6 million or 12.8% of sales from \$5.7 million or 11.6% of sales.

Non-operating expense was \$392,000 compared to \$394,000. Interest expense decreased to \$194,000 from \$397,000 while other expense was \$198,000 versus other income of \$3,000 in the year-ago period. The decrease in interest expense was primarily due to a reduced debt level. The company had an effective income tax rate of 26%.

1H19 - Sales increased 7.4% to \$98.7 million with net income of \$8.3 million or \$1.11 per share, up from \$5.8 million or \$0.78 per share.

Growth was primarily due increased sales to the medical and aerospace & defense markets of 16.2% and 37.4%, respectively. These increases were partially offset by a collective decline in sales to the consumer, electronics and industrial markets of 18.6%. The increase in sales to customers in the medical market was primarily due to strong sales at Dielectrics (including on additional month of sales), as well as increased demand from legacy UFP medical customers. The increase in sales to customers in the aerospace & defense markets was primarily due to increased government spending. The decline in sales to customers in the consumer, electronics and industrial markets was primarily due to decreased demand for molded fiber packaging.

Gross profit increased to \$26.9 million from \$23.2 million and gross margins increased to 27.2% from 25.2% due to improved manufacturing overhead coverage and improved manufacturing efficiencies. SG&A expenses increased to \$15 million from \$14 million due primarily to increased compensation costs. Operating income increased to \$11.8 million or 12% of sales from \$8.2 million or 9% of sales.

Non-operating expense was \$862,000 compared to \$592,000. Interest expense decreased to \$425,000 from \$645,000 while other expense was \$437,000 versus other income of \$53,000 in the year-ago period. The decrease in interest expense was primarily due to a reduced debt level. The company had an effective income tax rate of 24%.

Liquidity

At June 30, 2019, the company had \$5.2 million cash, a current ratio of 2.8X, tangible equity of \$76.2 million or \$10.22 per share, and \$17.4 million of debt for a debt to tangible equity ratio of approximately 0.2X.

1H19 cash provided by operations of \$12.4 million consisted of \$13.9 million in cash earnings and a \$1.6 million increase in working capital. The increase in working capital was primarily due to an increase in receivables offset in part by a decrease in refundable income taxes. Capital expenditures of \$2.8 million and a \$7.7 million pay down of debt resulted in a \$2 million increase in cash to \$5.2 million at June 30, 2019.

On February 1, 2018, the company entered into an unsecured \$70 million amended and restated credit agreement with Bank of America that matures on February 1, 2023. The credit facilities consist of a \$20 million term loan and a \$50 million revolving credit facility at an interest rate of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from .25% to zero.

Under the restated credit agreement, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. As of June 30, 2019, the applicable interest rate was 3.4% and the company was in compliance with all covenants.

	Income Statement (in thousands \$)	
	6M19A	6M18A
Net sales	98,726	91,949
Cost of sales	71,859	68,779
Gross profit	26,867	23,170
Extraordinary items	-	930
SG&A	15,043	14,008
Operating income	11,824	8,232
Interest exp, other inc and exp	(862)	(592)
Income before taxes	10,962	7,640
Income tax	2,630	1,873
Net Income / (Loss)	8,332	5,767
EPS	1.11	0.78
Shares Outstanding	7,473	7,408
<u>Margin Analysis</u>		
Gross margin	27.2%	25.2%
SG&A	15.2%	15.2%
Operating margin	12.0%	9.0%
Tax rate	24.0%	24.5%
<u>Year / Year Growth</u>		
Total Revenues	7.4%	
Net Income	44.5%	
EPS	43.2%	
Source: Company filings		

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 29% of total revenues in 2018. 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 7.4 million shares outstanding and 6.2 million in the float, liquidity issues must be considered. Average daily volume has been approximately 32,000 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>2016A</u>	<u>2017A</u>	<u>2018A</u>	<u>6/19A</u>	<u>2019E</u>	<u>2020E</u>
Cash and cash equivalents	31,359	37,978	3,238	5,231	8,040	31,237
Receivables	21,249	21,381	28,321	30,681	31,426	33,289
Inventories	14,151	12,863	19,576	19,038	20,405	21,324
Prepaid expenses	2,281	1,835	2,206	2,267	2,267	2,267
Refundable income taxes	<u>807</u>	<u>1,017</u>	<u>2,285</u>	<u>717</u>	<u>717</u>	<u>717</u>
Total current assets	69,847	75,074	55,626	57,934	62,856	88,835
Net property, plant and equipment	48,516	53,652	57,667	57,346	51,515	50,664
Goodwill	7,322	7,322	51,838	51,838	51,838	51,838
Intangible assets	318	-	22,232	21,603	20,975	19,718
Other assets	<u>1,931</u>	<u>2,159</u>	<u>2,235</u>	<u>6,244</u>	<u>6,244</u>	<u>6,244</u>
Total assets	<u>127,934</u>	<u>138,207</u>	<u>189,598</u>	<u>194,965</u>	<u>193,428</u>	<u>217,299</u>
Current portion of long-term debt	856	-	2,857	3,571	3,571	3,571
Deferred revenue	-	297	2,507	2,951	2,951	2,951
Accounts payable	4,002	4,180	6,836	5,895	6,986	7,301
Operating lease liabilities	-	-	-	984	984	984
Accrued expenses	<u>4,698</u>	<u>5,466</u>	<u>8,458</u>	<u>7,504</u>	<u>8,972</u>	<u>9,504</u>
Total current liabilities	9,556	9,943	20,658	20,905	23,464	24,310
Long-term debt	-	-	22,286	13,857	-	-
Deferred income taxes	3,459	2,440	4,129	4,966	4,966	4,966
Other liabilities	<u>1,866</u>	<u>2,112</u>	<u>2,068</u>	<u>5,583</u>	<u>5,583</u>	<u>5,583</u>
Total liabilities	<u>14,881</u>	<u>14,495</u>	<u>49,141</u>	<u>45,311</u>	<u>34,013</u>	<u>34,859</u>
Total stockholders' equity	<u>113,053</u>	<u>123,712</u>	<u>140,457</u>	<u>149,654</u>	<u>159,415</u>	<u>182,439</u>
Total liabilities & stockholders' equity	<u>127,934</u>	<u>138,207</u>	<u>189,598</u>	<u>194,965</u>	<u>193,428</u>	<u>217,299</u>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements
(in thousands \$)

	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	2019E	2020E
Net sales	146,132	147,842	190,455	202,027	214,000
Cost of sales	<u>111,482</u>	<u>112,355</u>	<u>142,147</u>	147,939	154,601
Gross profit	34,650	35,487	48,308	54,088	59,399
Extraordinary items	(1,692)	(51)	938	-	-
SG&A	<u>24,105</u>	<u>23,845</u>	<u>27,758</u>	30,443	31,000
Operating income	12,237	11,693	19,612	23,645	28,399
Non-operating (expenses) income	<u>80</u>	<u>166</u>	<u>(1,209)</u>	(1,037)	-
Income before taxes	12,317	11,859	18,403	22,608	28,399
Income tax (benefit)	<u>4,347</u>	<u>2,649</u>	<u>4,092</u>	5,659	7,384
Net Income / (Loss)	<u>7,970</u>	<u>9,210</u>	<u>14,311</u>	16,949	21,015
EPS	<u>1.10</u>	<u>1.26</u>	<u>1.93</u>	2.27	2.81
Shares Outstanding	7,275	7,337	7,430	7,468	7,470
<u>Margin Analysis</u>					
Gross margin	23.7%	24.0%	25.4%	26.8%	27.8%
SG&A	16.5%	16.1%	14.6%	15.1%	14.5%
Operating margin	8.4%	7.9%	10.3%	11.7%	13.3%
Pretax margin	8.4%	8.0%	9.7%	11.2%	13.3%
Tax rate	35.3%	22.3%	22.2%	25.0%	26.0%
<u>Year / Year Growth</u>					
Total Revenues	5.2%	1.2%	28.8%	6.1%	5.9%
Net Income	5.0%	15.6%	55.4%	18.4%	24.0%
EPS	4.2%	14.6%	53.4%	17.8%	24.0%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Quarterly Income Statements 2018A - 2020E
(in thousands \$)

	<u>3/18A</u>	<u>6/18A</u>	<u>9/18A</u>	<u>12/18A</u>	<u>2018A</u>	<u>3/19A</u>	<u>6/19A</u>	<u>9/19E</u>	<u>12/19E</u>	2019E	<u>3/20E</u>	<u>6/20E</u>	<u>9/20E</u>	<u>12/20E</u>	2020E
Net sales	42,931	49,019	47,808	50,697	190,455	47,328	51,399	51,500	51,800	202,027	52,500	53,500	53,750	54,250	214,000
Cost of sales	<u>32,746</u>	<u>36,033</u>	<u>35,377</u>	<u>37,991</u>	<u>142,147</u>	<u>34,831</u>	<u>37,028</u>	<u>38,007</u>	<u>38,073</u>	147,939	<u>38,325</u>	<u>38,788</u>	<u>38,700</u>	<u>38,789</u>	154,601
Gross profit	10,185	12,986	12,431	12,706	48,308	12,497	14,371	13,493	13,727	54,088	14,175	14,713	15,050	15,461	59,399
Extraordinary items	1,029	(100)	5	4	938	-	-	-	-	-	-	-	-	-	-
SG&A	<u>6,592</u>	<u>7,417</u>	<u>6,541</u>	<u>7,208</u>	<u>27,758</u>	<u>7,244</u>	<u>7,799</u>	<u>7,700</u>	<u>7,700</u>	30,443	<u>7,750</u>	<u>7,750</u>	<u>7,750</u>	<u>7,750</u>	31,000
Operating income	2,564	5,669	5,885	5,494	19,612	5,253	6,572	5,793	6,027	23,645	6,425	6,963	7,300	7,711	28,399
Non-operating (expenses) income	<u>(198)</u>	<u>(394)</u>	<u>(258)</u>	<u>(358)</u>	<u>(1,209)</u>	<u>(470)</u>	<u>(392)</u>	<u>(115)</u>	<u>(60)</u>	(1,037)	-	-	-	-	-
Income before taxes	2,366	5,275	5,627	5,136	18,403	4,783	6,180	5,678	5,967	22,608	6,425	6,963	7,300	7,711	28,399
Income tax (benefit)	<u>589</u>	<u>1,285</u>	<u>1,493</u>	<u>726</u>	<u>4,092</u>	<u>1,049</u>	<u>1,582</u>	<u>1,476</u>	<u>1,551</u>	5,659	<u>1,671</u>	<u>1,810</u>	<u>1,898</u>	<u>2,005</u>	7,384
Net Income / (Loss)	<u>1,777</u>	<u>3,990</u>	<u>4,134</u>	<u>4,410</u>	<u>14,311</u>	<u>3,734</u>	<u>4,598</u>	<u>4,202</u>	<u>4,416</u>	16,949	<u>4,755</u>	<u>5,152</u>	<u>5,402</u>	<u>5,706</u>	21,015
EPS	<u>0.24</u>	<u>0.54</u>	<u>0.56</u>	<u>0.59</u>	<u>1.93</u>	<u>0.50</u>	<u>0.62</u>	<u>0.56</u>	<u>0.59</u>	2.27	<u>0.64</u>	<u>0.69</u>	<u>0.72</u>	<u>0.76</u>	2.81
Shares Outstanding	7,378	7,413	7,435	7,464	7,430	7,466	7,467	7,470	7,470	7,468	7,470	7,470	7,470	7,470	7,470
Margin Analysis															
Gross margin	23.7%	26.5%	26.0%	25.1%	25.4%	26.4%	28.0%	26.2%	26.5%	26.8%	27.0%	27.5%	28.0%	28.5%	27.8%
SG&A	15.4%	15.1%	13.7%	14.2%	14.6%	15.3%	15.2%	15.0%	14.9%	15.1%	14.8%	14.5%	14.4%	14.3%	14.5%
Operating margin	6.0%	11.6%	12.3%	10.8%	10.3%	11.1%	12.8%	11.2%	11.6%	11.7%	12.2%	13.0%	13.6%	14.2%	13.3%
Pretax margin	5.5%	10.8%	11.8%	10.1%	9.7%	10.1%	12.0%	11.0%	11.5%	11.2%	12.2%	13.0%	13.6%	14.2%	13.3%
Tax rate	24.9%	24.4%	26.5%	14.1%	22.2%	21.9%	26.0%	26.0%	26.0%	25.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Year / Year Growth															
Total Revenues	15.9%	29.4%	34.0%	36.2%	28.8%	10.2%	4.9%	7.7%	2.2%	6.1%	10.9%	4.1%	4.4%	4.7%	5.9%
Net Income	(18.1)%	51.7%	143.9%	62.4%	55.4%	110.1%	15.2%	1.6%	0.1%	18.4%	27.3%	12.1%	28.6%	29.2%	24.0%
EPS	(19.0)%	49.9%	141.2%	60.4%	53.4%	107.7%	14.4%	1.2%	0.0%	17.8%	27.3%	12.0%	28.6%	29.2%	24.0%

Source: Company filings and Taglich Brothers' estimates

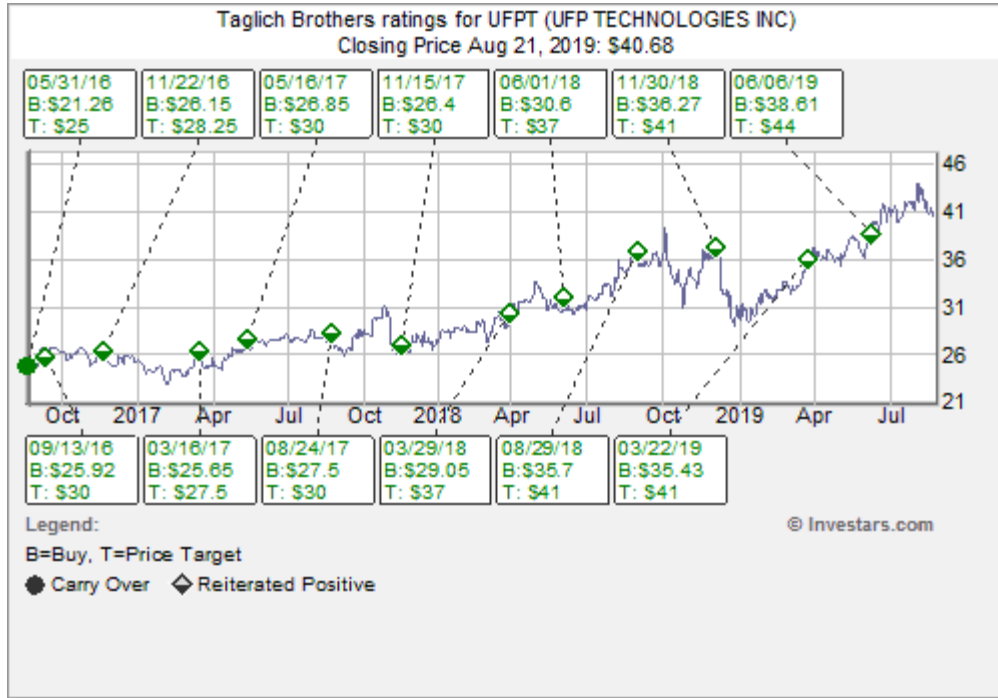
UFP Technologies, Inc.

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

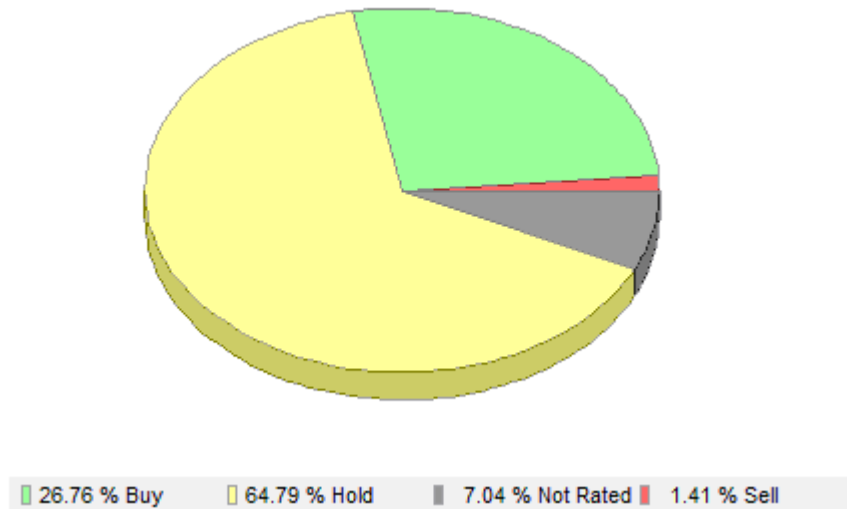
	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	<u>6M19A</u>	<u>2019E</u>	<u>2020E</u>
Net income	7,970	9,210	14,311	8,332	16,949	21,015
Depreciation & amortization	5,634	5,635	7,831	4,050	7,722	7,608
(Gain) loss on disposal of property, plant and equipment	2	7	(47)	-	-	-
Share-based compensation	1,056	1,068	1,212	696	1,400	1,400
Excess tax benefit on share-based compensation	(145)	-	-	-	-	-
Deferred income taxes	<u>576</u>	<u>(1,019)</u>	<u>1,881</u>	<u>837</u>	<u>837</u>	<u>-</u>
Cash earnings	15,093	14,901	25,188	13,915	26,908	30,023
<i>Changes in assets and liabilities</i>						
Receivables	(3,768)	(132)	(2,556)	(2,360)	(3,105)	(1,862)
Inventories	51	1,288	(2,295)	538	(829)	(919)
Prepaid expenses	(1,351)	446	(249)	(61)	(61)	-
Refundable income taxes	209	(210)	(1,268)	1,568	1,568	-
Other assets	(97)	(228)	(76)	(178)	791	-
Accounts payable	(683)	93	1,113	(1,222)	1,521	315
Accrued expenses and other	(361)	1,065	1,472	30	514	532
Deferred revenue	-	-	35	444	444	-
Retirement and other liabilities	<u>213</u>	<u>246</u>	<u>(44)</u>	<u>(316)</u>	<u>3,515</u>	<u>-</u>
(Increase) decrease in working capital	(5,787)	2,568	(3,868)	(1,557)	4,357	(1,935)
Net Cash Provided by Operations	9,306	17,469	21,320	12,358	31,265	28,088
Additions to property, plant and equipment	(7,206)	(10,382)	(5,428)	(2,819)	(5,500)	(5,500)
Cash paid for acquisitions (net)	-	-	(76,978)	-	-	-
Proceeds from sale of fixed assets	<u>14</u>	<u>7</u>	<u>77</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Used in Investing	(7,192)	(10,375)	(82,329)	(2,819)	(5,500)	(5,500)
Proceeds from line of credit	-	-	36,000	-	-	-
Payments on line of credit	-	-	(28,000)	(7,000)	(20,142)	-
Proceeds from long-term borrowings	-	-	20,000	-	-	-
Tax benefit from exercise of non-qualified stock options	145	-	-	-	-	-
Proceeds from exercise of stock options	529	677	1,270	440	880	880
Payment of statutory withholdings for stock options exercised	(219)	(296)	(144)	(271)	(271)	(271)
Principal repayments of long-term debt	<u>(1,014)</u>	<u>(856)</u>	<u>(2,857)</u>	<u>(715)</u>	<u>(1,430)</u>	<u>-</u>
Net Cash Provided by (Used in) Financing	(559)	(475)	26,269	(7,546)	(20,963)	609
Net Change in Cash	1,555	6,619	(34,740)	1,993	4,802	23,197
Cash - Beginning of Period	<u>29,804</u>	<u>31,359</u>	<u>37,978</u>	<u>3,238</u>	<u>3,238</u>	<u>8,040</u>
Cash - End of Period	<u>31,359</u>	<u>37,978</u>	<u>3,238</u>	<u>5,231</u>	<u>8,040</u>	<u>31,237</u>

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	9
Hold		
Sell		
Not Rated	1	25

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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)
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.

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.