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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

August 24, 2017

UFPT $27.50 — (NASDAQ CM)

	2015A	2016A	2017E	2018E
Revenues (millions)	$138.9	$146.1	$153.1	$160.0
Earnings per share (diluted)	$1.05	$1.10	$1.41	$1.75

52-Week range	$29.00 – $22.79	Fiscal year ends:	December
Shares outstanding as of 8/1/17	7.3 million	Revenue per share (TTM)	$20.34
Approximate float	6.0 million	Price/Sales (TTM)	1.4X
Market capitalization	$201 million	Price/Sales (2018)E	1.3X
Tangible book value/share	$15.33	Price/Earnings (TTM)	22.4X
Price/tangible book	1.8X	Price/Earnings (2018)E	15.7X

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures packaging and custom products for the medical, automotive, consumer, electronics, industrial, and aerospace and defense markets using foams, plastics, composites, and natural fiber materials. (www.ufpt.com)

Key investment considerations:

Reiterating Buy rating and maintaining twelve-month price target of $30.00.

Continued growth in medical market sales (up 11% year-to-date) and potential defense/aerospace market sales growth stemming from increased defense spending, should help drive growth in UFPT's sales through our forecast horizon.

The high costs and manufacturing inefficiencies associated with plant consolidations that impacted gross margins in 2016, appear to have abated in 1H17. The $1 million in annual cost savings from these consolidations along with strategic price increases, should drive gross margins from 23.7% in 2016, to 26.4% in 2017 and 28% in 2018.

2Q17 revenue (released on 8/9/17) was flat at $37.9 million. EPS decreased to $0.36 from $0.38. We projected 2Q17 sales of $40 million and EPS of $0.36.

For 2017, we project revenue growth of 4.8% to $153.1 million and EPS of $1.41. Our revenue projection is down from our prior forecast of $156 million due to 2Q17 results. Our EPS projection is up from our prior forecast of $1.39 due to higher gross margins and lower SG&A expenses than originally anticipated.

For 2018, we project EPS of $1.75 on revenue growth of 4.5% to $160 million. We previously forecasted $165 million in revenue and EPS of $1.75. While our revenue projection has been lowered due primarily to slowing automotive sales, our EPS projection remains unchanged due primarily to gross margin expansion.

Please view our disclosures on pages 12 - 14.

790 New York Avenue, Huntington, N.Y. 11743
(800) 383-8464 • Fax (631) 757-1333

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and maintaining our twelve-month price target of $30.00.

Shares of UFP Technologies trade at a forward discount to its direct competitors (see chart below) due arguably to margin compression over the past year as the company was going through a consolidation period.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2018 P/E	Average Projected EPS Growth to 2018
Packaging Corp of America	PKG	109.16	10,299	20.5	16.4	11%
Sealed Air	SEE	45.3	8,608	19.6	18.3	36%
Graphic Packaging	GPK	13.04	4,041	20.7	15.2	26%
Bemis	BMS	41.72	3,788	16.8	15.3	15%
Greif	GEF	56.73	2,829	21.2	17.3	13%
Peer Average				**19.8**	**16.5**	**20%**
Company						
UFP Technologies	**UFPT**	**27.5**	**201**	**22.4**	**15.7**	**24%**
Source: Taglich Brothers estimates, Thomson Reuters						

UFP Technologies currently trades at a multiple of 15.7X our 2018 EPS projection while its direct competitors trade at a 2018 multiple of 16.5X. With consolidation issues largely behind the company, we believe investors will accord UFPT a higher multiple compared to its direct competitors as margin expansion results in higher projected annual earnings growth to 2018 versus the average of its direct competitors. We applied a multiple of 17X (unchanged) to our 2018 EPS projection of $1.75 to obtain a year-ahead value of approximately $30.00 per share.

It is important to note that with the company's strong balance sheet and healthy cash position (currently $34.5 million or $4.65 cash per share which we project will increase to over $54 million or $7.38 cash per share by the end of 2018), the potential for further growth through strategic acquisitions remains high.

Business

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures packaging and custom products for the medical, automotive, consumer, electronics, industrial, and aerospace and defense 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 44% 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, consumer electronics, and industrial) each account for approximately 7% 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.

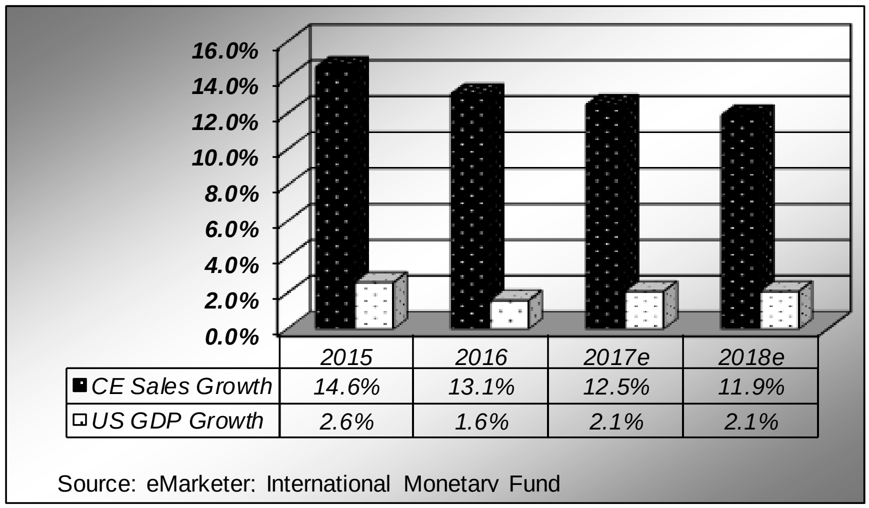
Industry Outlook

In March 2017, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 1.3% to $12.9 billion through 2022. Industry growth is predicated on strong overall domestic demand and a positive economic outlook.

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. In April 2017, IBISWorld forecasted medical device industry average annual sales growth of approximately 2.8% to $49 billion from 2017 to 2022.

In July 2017, IBISWorld projected sales in the US car and automobile industry to be flat through 2022. IBISWorld projects demand for new vehicles is expected to slow as many consumers have already released pent-up demand.

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 two years with projections to 2018.



While the rate of consumer electronics sales growth is projected to continue to trend downward over the next two years, growth still remains robust. eMarketer forecasts Web sales of computers and consumer electronics to grow at an average annual rate of approximately 12.2% to $108.4 billion in 2018.

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, and explosion suppressant foams used in fuel systems of aircrafts. The US Department of Defense's budget requests $639.1 billion for US defense spending in 2018, $52.4 billion higher than 2017 and $58.8 billion higher than 2016. This potential boost in defense spending over the next two years should bode well for UFPT's sales to this market.

Economic Outlook

Since most of the company's revenue is tied to economically sensitive end markets in the US, stable GDP growth should support our revenue forecast to 2018.

In July 2017, the International Monetary Fund (IMF) lowered its economic growth estimate for the US to 2.1% in 2017 and 2018, down from its earlier (April 2017) growth forecast of 2.3% in 2017 and 2.5% in 2018. The downward revision reflects the uncertainties surrounding the President's plans to overhaul the economy. These uncertainties include the yet to be decided details about budget proposals to reduce the fiscal deficit and debt, to reprioritize public spending, and to revamp the tax system.

The advance estimate of US GDP growth (released on July 28, 2017) showed the US economy grew at an annual rate of 2.6% in 2Q17, up from 1.2% growth in 1Q17. The 2Q17 US GDP growth estimate primarily reflects increases in business investment, exports, consumer spending, and federal government spending. Partly offsetting these contributions to GDP growth were declines in housing investment, inventory investment and government spending.

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 in the table at right.

Company	Sales TTM	Gross Margin
Graphic Packaging	$4.3B (6/17)	18.3%
Packaging Corp. of America	$6.1B (6/17)	21.1%
Greif	$3.4B (4/17)	20.0%
Bemis Company	$4.0B (6/17)	21.5%
Sealed Air Corp.	$6.8B (6/17)	37.0%
UFP Technologies	$148.7M (6/17)	23.3%

Source: Yahoo! Finance

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

In 2015, the company ceased operations at its Raritan, New Jersey plant and consolidated operations at its Newburyport, Massachusetts, facility and other UFPT facilities. UFPT also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts facilities to its Newburyport, Massachusetts, facility in 2015.

The company completed the relocation of certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility by the end of 2Q17 and is currently in the process of expanding its Newbury manufacturing plant. While over $2 million in one-time expenses have occurred in connection with these consolidations, annual cost savings of $1 million are expected due to reduced real estate and labor costs.

2017 Forecast

For 2017, we project revenue growth of 4.8% to $153 million and net income of $10.3 million or $1.41 per share. Our revenue projection is down from our prior forecast of $156 million to primarily reflect 2Q17 results. Our net income projection is up from our prior forecast of $10.2 million or $1.39 per share due primarily to higher gross margins and lower SG&A expenses than originally anticipated.

We project gross margins of 26.4%, up from our prior forecast of 25.9%, as higher margin medical sales make up a greater percentage of total sales. Our gross margin projections are supported by the strategic price increases afforded by a five-year deal with Zotefoams granting UFPT exclusive access to certain medical grade foams.

We project $24.8 million in SG&A expenses, down from our prior forecast of $25 million due primarily to payroll reductions. SG&A margins are projected to decrease to 16.2% from 16.5%. We project operating income of $15.6 million, up from $12.2 million with margins increasing to 10.2% from 8.4%. Taxes are estimated at rate of 34.2%.

In 2017, we project $17.2 million cash from operations primarily from cash earnings. Cash from operations should cover capital expenditures and repayment of long-term debt, increasing cash by $10 million to $41.4 million at the end of 2017.

2018 Forecast

For 2018, we project revenue growth of 4.5% to $160 million and net income of $12.8 million or $1.75 per share. We previously projected revenue of $165 million and earnings of $12.8 million or $1.75 per share. The decrease in our revenue estimate primarily reflects reduced sales to the automotive market stemming from slowing automotive production and the end of a 13-year automotive door panel program in 4Q17 (estimated to contribute $2.3 million sales in 2017). While our revenue projection has been lowered, our earnings projection remains unchanged due to higher gross margins.

With consolidation at an end and continued growth in high margin sales to the medical market, we project gross margins increasing to 28% from 26.5% in 2017. SG&A expenses should increase to $25.3 million from $24.8 million in 2017 due primarily to increased compensation costs. SG&A margins should decrease to 15.8% from our 2017 forecast of 16.2%. We project operating income growth of 25.1% to $19.5 million with margins increasing to 12.2% from 10.2%. Taxes are estimated at a rate of 35%.

In 2018, we project $18.4 million cash from operations from cash earnings of $19.4 million and a $1 million increase in working capital. The increase in working capital is primarily due to an increase in receivables. Cash from operations should cover any capital expenditures, increasing cash by $12.7 million to $54.1 million at the end of 2018.

2Q and 1H17 Financial Results

2Q17 - Sales were flat at $37.9 million with net income of $2.6 million or $0.36 per share, down from $2.7 million or $0.38 per share. We projected sales of $40 million and net income of $2.7 million or $0.36 per share.

Demand from customers in the medical market was offset by decreased sales to customers in automotive, industrial and aerospace/defense. Sales growth to the medical market was primarily due to strong demand from UFPT's customers and selective price increases. Reduced sales to customers in the automotive market was primarily due to soft demand for interior trim components in certain legacy programs. The decline in sales to the industrial market was largely due to credit issues at one of this market's larger customers. The decline in sales to the aerospace/defense market customers was primarily due to the phase-out of a certain helmet program.

Gross margins decreased to 26.2% from 27.2% due primarily to increased labor costs. SG&A expenses decreased to $6.1 million from $6.5 million due primarily to reductions in payroll. Operating income decreased to $3.9 million from $4.2 million in 2Q16. Operating margins were 10.4% compared to 11.1% in the year ago period. The company had an effective income tax rate of 33.6%.

1H17 - Sales increased 3.5% to $74.9 million with net income of $4.8 million or $0.66 per share, up from $3.8 million or $0.53 per share.

Sales growth was driven by the company's medical market segment, partly offset by reductions in the automotive and industrial market segments.

Gross margins increased to 26% from 24.9% due primarily to improvements in manufacturing efficiencies and strategic price increases. SG&A expenses remained relatively flat at $12.4 million. Operating income increased to $7.1 million from $5.9 million on operating margins of 9.5% and 8.1%, respectively. The company had an effective income tax rate of 33.3%.

Income Statement
(in thousands $)

	6m17A	6m16A
Net sales	74,939	72,406
Cost of sales	55,482	54,393
Gross profit	19,457	18,013
Extraordinary items	(55)	(258)
SG&A	12,376	12,374
Operating income	7,136	5,897
Interest exp, other inc and exp	57	26
Income before taxes	7,193	5,923
Income tax	2,392	2,113
Net Income / (Loss)	4,801	3,810
EPS	0.66	0.53
Shares Outstanding	7,312	7,238
Margin Analysis		
Gross margin	26.0%	24.9%
SG&A	16.5%	17.1%
Operating margin	9.5%	8.1%
Tax rate	33.3%	35.7%
Year / Year Growth		
Total Revenues	3.5%	
Net Income	26.0%	
EPS	24.7%	

Source: Company filings

Liquidity

The company has a strong balance sheet. At June 30, 2017, the company had total debt of $342,000, tangible equity of $111.2 million, and cash (approximately $4.74 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.9 for the packaging and containers industry.

Cash from operations of $7.9 million consisted primarily of cash earnings. Cash provided by operations covered $4.5 million of capital expenditures and a $514,000 repayment of debt resulting in a $3.2 million increase in cash to $34.5 million as of June 30, 2017.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of June30, 2017. 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 June 30, 2017.

UFPT has a $5 million 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was $342,000 as of June 30, 2017. 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 28% of total revenues in 2016. 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 7.3 million shares outstanding and 6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 22,000 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.

Balance Sheets
(in thousands $)

	2014A	2015A	2016A	6/17A	2017E	2018E
Cash and cash equivalents	34,052	29,804	31,359	34,514	41,356	54,086
Receivables	16,470	17,481	21,249	22,306	22,261	23,266
Inventories	12,893	14,202	14,151	14,095	14,309	14,622
Prepaid expenses	664	930	2,281	2,455	2,455	2,455
Refundable income taxes	3,192	1,186	807	9	9	-
Deferred income taxes	-	-	-	-	-	-
Total current assets	67,271	63,603	69,847	73,379	80,389	94,428
Net property, plant and equipment	34,843	46,555	48,516	50,836	50,022	50,475
Goodwill	7,322	7,322	7,322	7,322	7,322	7,322
Intangible assets	953	636	318	159	-	-
Other assets	2,159	1,834	1,931	1,994	1,994	1,994
Total assets	**112,548**	**119,950**	**127,934**	**133,690**	**139,727**	**154,219**
Current portion of long-term debt	993	1,011	856	342	342	342
Accounts payable	5,398	4,598	4,002	4,394	4,047	4,135
Accrued expenses	5,222	5,374	4,698	4,629	4,922	5,144
Total current liabilities	11,613	10,983	9,556	9,365	9,310	9,621
Long-term debt	1,873	859	-	-	-	-
Deferred income taxes	2,446	2,883	3,459	3,619	3,619	3,619
Other liabilities	1,624	1,653	1,866	2,008	2,008	2,008
Total liabilities	**17,556**	**16,378**	**14,881**	**14,992**	**14,937**	**15,248**
Total stockholders' equity	**94,992**	**103,572**	**113,053**	**118,698**	**124,790**	**138,971**
Total liabilities & stockholders' equity	**112,548**	**119,950**	**127,934**	**133,690**	**139,727**	**154,219**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2014A	2015A	2016A	2017E	2018E
Net sales	139,307	138,850	146,132	153,089	160,000
Cost of sales	102,427	101,397	111,482	112,725	115,191
Gross profit	36,880	37,453	34,650	40,364	44,809
Extraordinary items	1,472	1,731	(1,692)	(55)	-
SG&A	23,847	24,009	24,105	24,827	25,265
Operating income	11,561	11,713	12,237	15,592	19,544
Non-operating (expenses) income	204	27	80	117	120
Income before taxes	11,765	11,740	12,317	15,709	19,664
Income tax	4,206	4,147	4,347	5,372	6,882
Net Income / (Loss)	7,559	7,593	7,970	10,337	12,781
EPS	1.05	1.05	1.10	1.41	1.75
Shares Outstanding	7,175	7,219	7,275	7,317	7,323
Margin Analysis					
Gross margin	26.5%	27.0%	23.7%	26.4%	28.0%
SG&A	17.1%	17.3%	16.5%	16.2%	15.8%
Operating margin	8.3%	8.4%	8.4%	10.2%	12.2%
Pretax margin	8.4%	8.5%	8.4%	10.3%	12.3%
Tax rate	35.8%	35.3%	35.3%	34.2%	35.0%
Year / Year Growth					
Total Revenues	0.1%	(0.3)%	5.2%	4.8%	4.5%
Net Income	(33.0)%	0.4%	5.0%	29.7%	23.6%
EPS	(33.6)%	(0.2)%	4.2%	29.0%	23.5%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2016A - 2018E
(in thousands $)

	3/16A	6/16A	9/16A	12/16A	2016A	3/17A	6/17A	9/17E	12/17E	2017E	3/18E	6/18E	9/18E	12/18E	2018E
Net sales	34,503	37,902	37,220	36,505	146,132	37,053	37,886	38,700	39,450	153,089	39,250	39,750	40,250	40,750	160,000
Cost of sales	26,776	27,607	28,768	28,321	111,482	27,537	27,945	28,445	28,799	112,725	28,456	28,719	28,879	29,136	115,191
Gross profit	7,727	10,295	8,452	8,184	34,650	9,516	9,941	10,256	10,652	40,364	10,794	11,031	11,371	11,614	44,809
Extraordinary items	119	(368)	(1,656)	222	(1,692)	(5)	(50)	-	-	(55)	-	-	-	-	-
SG&A	5,904	6,470	6,027	5,704	24,105	6,316	6,061	6,200	6,250	24,827	6,210	6,275	6,340	6,440	25,265
Operating income	1,704	4,193	4,081	2,258	12,237	3,205	3,930	4,056	4,402	15,592	4,584	4,756	5,031	5,174	19,544
Non-operating (expenses) income	11	15	25	29	80	28	29	30	30	117	30	30	30	30	120
Income before taxes	1,715	4,208	4,106	2,287	12,317	3,233	3,959	4,086	4,432	15,709	4,614	4,786	5,061	5,204	19,664
Income tax	640	1,473	1,437	796	4,347	1,062	1,329	1,430	1,551	5,372	1,615	1,675	1,771	1,821	6,882
Net Income / (Loss)	1,075	2,735	2,669	1,491	7,970	2,171	2,630	2,656	2,880	10,337	2,999	3,111	3,289	3,382	12,781
EPS	0.15	0.38	0.37	0.20	1.10	0.30	0.36	0.36	0.39	1.41	0.41	0.42	0.45	0.46	1.75
Shares Outstanding	7,255	7,271	7,312	7,300	7,275	7,297	7,323	7,323	7,323	7,317	7,323	7,323	7,323	7,323	7,323
Margin Analysis															
Gross margin	22.4%	27.2%	22.7%	22.4%	23.7%	25.7%	26.2%	26.5%	27.0%	26.4%	27.5%	27.8%	28.3%	28.5%	28.0%
SG&A	17.1%	17.1%	16.2%	15.6%	16.5%	17.0%	16.0%	16.0%	15.8%	16.2%	15.8%	15.8%	15.8%	15.8%	15.8%
Operating margin	4.9%	11.1%	11.0%	6.2%	8.4%	8.6%	10.4%	10.5%	11.2%	10.2%	11.7%	12.0%	12.5%	12.7%	12.2%
Pretax margin	5.0%	11.1%	11.0%	6.3%	8.4%	8.7%	10.4%	10.6%	11.2%	10.3%	11.8%	12.0%	12.6%	12.8%	12.3%
Tax rate	37.3%	35.0%	35.0%	34.8%	35.3%	32.8%	33.6%	35.0%	35.0%	34.2%	35.0%	35.0%	35.0%	35.0%	35.0%
Year / Year Growth															
Total Revenues	1.5%	3.8%	8.1%	7.6%	5.2%	7.4%	0.0%	4.0%	8.1%	4.8%	5.9%	4.9%	4.0%	3.3%	4.5%
Net Income	(35.0)%	20.4%	34.0%	(11.0)%	5.0%	102.0%	(3.8)%	(0.5)%	93.2%	29.7%	38.1%	18.3%	23.9%	17.4%	23.6%
EPS	(35.5)%	19.4%	32.5%	(11.7)%	4.2%	100.8%	(4.5)%	(0.7)%	92.6%	29.0%	37.6%	18.3%	23.9%	17.4%	23.5%

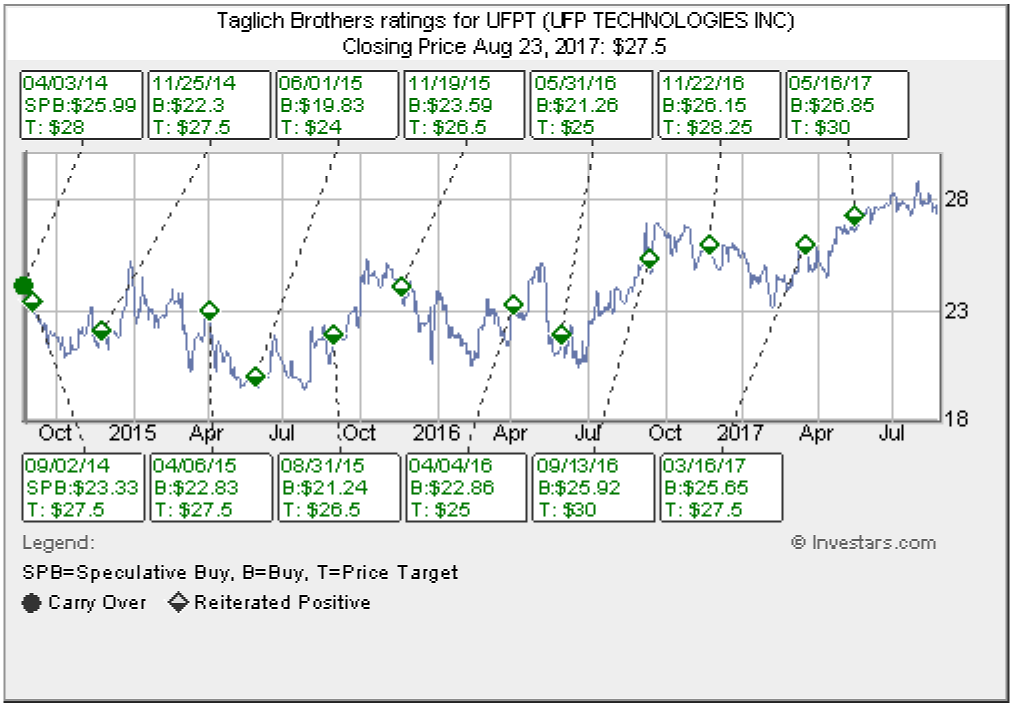
Source: Company filings and Taglich Brothers' estimates

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

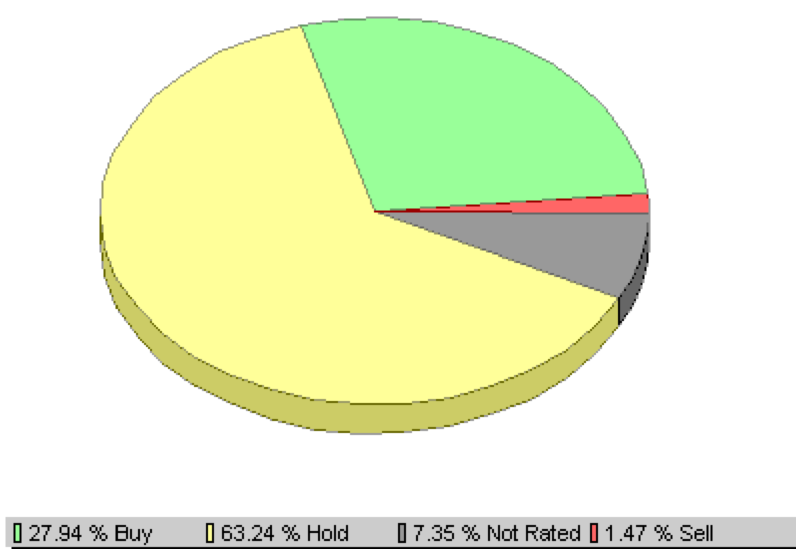
	2014A	2015A	2016A	6M17A	2017E	2018E
Net income	7,559	7,593	7,970	4,801	10,337	12,781
Depreciation & amortization	4,376	4,846	5,634	2,796	5,812	5,547
(Gain) loss on disposal of property, plant and equipment	5	27	2	3	3	-
Share-based compensation	1,119	1,069	1,056	636	1,100	1,100
Excess tax benefit on share-based compensation	(1,219)	(356)	(145)	-	-	-
Deferred income taxes	1,232	437	576	160	160	-
Cash earnings	13,072	13,616	15,093	8,396	17,412	19,428
Changes in assets and liabilities						
Receivables	562	(1,011)	(3,768)	(1,057)	(1,012)	(1,005)
Inventories	(1,845)	(1,309)	51	56	(158)	(313)
Prepaid expenses	26	(266)	(1,351)	(174)	(174)	-
Refundable income taxes	(436)	2,362	209	798	789	9
Accounts payable	2,317	(800)	(596)	(103)	45	89
Accrued expenses and other	(2,243)	152	(361)	(69)	224	222
Retirement and other liabilities	(181)	29	213	142	142	-
Other assets	(146)	325	(97)	(63)	(63)	-
(Increase) decrease in working capital	(1,946)	(518)	(5,700)	(470)	(207)	(998)
Net Cash Provided by Operations	**11,126**	**13,098**	**9,393**	**7,926**	**17,205**	**18,430**
Additions to property, plant and equipment	(13,436)	(16,321)	(7,293)	(4,471)	(7,000)	(6,000)
Redemption of cash value life insurance	-	-	-	-	-	-
Proceeds from sale of fixed assets	112	53	14	6	6	-
Net Cash Used in Investing	**(13,324)**	**(16,268)**	**(7,279)**	**(4,465)**	**(6,994)**	**(6,000)**
Repurchases of common stock	-	(587)	-	-	-	-
Tax benefit from exercise of non-qualified stock options	1,219	356	145	-	-	-
Proceeds from exercise of stock options	336	358	529	315	500	500
Payment of statutory withholdings for stock options exercised	(831)	(209)	(219)	(107)	(200)	(200)
Principal repayments of long-term debt	(977)	(996)	(1,014)	(514)	(514)	-
Payment of contingent note payable	(800)	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(1,053)**	**(1,078)**	**(559)**	**(306)**	**(214)**	**300**
Net Change in Cash	**(3,251)**	**(4,248)**	**1,555**	**3,155**	**9,997**	**12,730**
Cash - Beginning of Period	**37,303**	**34,052**	**29,804**	**31,359**	**31,359**	**41,356**
Cash - End of Period	**34,052**	**29,804**	**31,359**	**34,514**	**41,356**	**54,086**

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	10
Hold	1	33
Sell		
Not Rated		

Important Disclosures

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

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.

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.