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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 31, 2015

## UFPT $21.24 — (NASDAQ CM)

| | 2013A | 2014A | 2015E | 2016E |
|---|---|---|---|---|
| Revenues (millions) | $139.2 | $139.3 | $144.0 | $149.7 |
| Earnings per share (diluted) | $1.59 | $1.05 | $1.20 | $1.74 |

| | | | |
|---|---|---|---|
| 52-Week range | $25.45 – $17.51 | Fiscal year ends: | December |
| Shares outstanding as of 8/3/15 | 7.1 million | Revenue per share (TTM) | $19.62 |
| Approximate float | 5.7 million | Price/Sales (TTM) | 1.1X |
| Market capitalization | $151 million | Price/Sales (2016)E | 1.0X |
| Tangible book value/share | $12.89 | Price/Earnings (TTM) | 20.2X |
| Price/tangible book | 1.6X | Price/Earnings (2016)E | 12.2X |

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

***Key investment considerations:***

***Reiterating our Buy rating on UFP Technologies and raising our twelve-month price target to $26.50 (from $24.00) based on increased valuation stemming from a return to revenue and earnings growth.***

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

***Plant consolidations in 2014 (in California and Michigan) and 2015 (Massachusetts) will cut costs by approximately $1.7 million annually, driving gross margin improvement to 29.6% by 2016 from 26.5% in 2014.***

***For 2015, we project revenue of $144 million ($140 million previously) and EPS of $1.20 ($1.13 previously). Our increased projections primarily reflect 2Q15 results.***

***For 2016, we project revenue of $149.7 million ($146 million previously) and EPS of $1.74 ($1.72 previously). Our higher EPS projection on unchanged income of $12.6 million is due to a lower share count stemming from the company's recent stock repurchases.***

***2Q15 revenue (10-Q released 8/7/15) increased 7% to $36.5 million and EPS increased to $0.32 from $0.26 due primarily to higher sales to the medical, aerospace and defense and automotive markets. We projected 2Q15 revenue of $34.1 million and EPS of $0.22.***

***Please view our disclosures on pages 12 - 14.***

## *Recommendation and Valuation*

We are reiterating our **Buy** rating on UFP Technologies and raising our **twelve-month price target to $26.50** (from $24.00) based on increased valuation stemming from a return to revenue and earnings growth.

Shares of UFPT currently trade at a trailing price to earnings multiple of 20X, up from an average multiple of 18X in 2014 when revenue was flat and earnings were reduced. We believe the increase in multiple is primarily due to a return to revenue and earnings growth. The company's direct competitors are trading at an average multiple of 21X TTM earnings (excludes Sealed Air's 46X multiple). We believe the market will accord the stock a multiple of 16X with the growth in earnings we project. We applied a multiple of 16X to our 2016 earnings estimate of $1.74 per share, discounted by 5% to account for execution risk, to obtain a year-ahead value of approximately $26.50.

## *Business*

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

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

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

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

## *Industry Outlook*

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

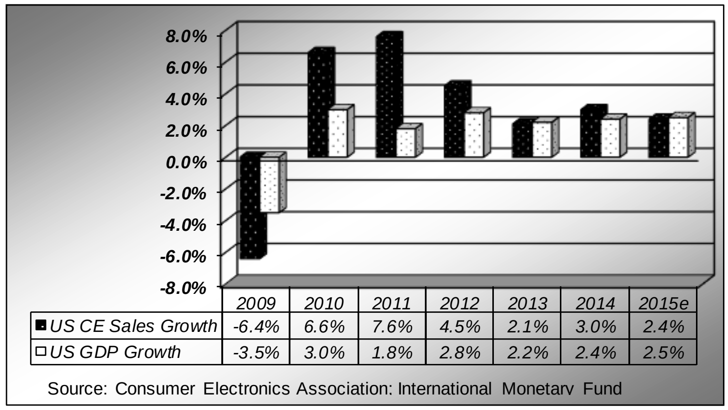
The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years.

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

In May 2015, IBISWorld forecasted medical device industry average annual sales growth of approximately 6.1% to $57.4 billion during the six years to 2021.

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

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




In June 2015, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.5% to $84.2 billion during the six years to 2021. This growth will be driven by technologies such as tablet computers and e-readers and consumer spending.

UFP Technologies' aerospace and defense products are used in applications such as protective cases and inserts for military equipment (i.e. tools used for large engine rebuilds), uniform and gear components such as backpacks and duty belts used by soldiers in combat, and explosion suppressant foams used in fuel systems of aircrafts. US defense spending increased by 1% in 2014, is projected to decline by 3% in 2015, and increase by 4% in 2016 according to the most recent US Department of Defense budget request (February 2015). This fluctuation in defense spending over the next two years is likely to limit UFPT's sales to this market. However, an uptick in demand for components for military uniforms and equipment has resulted in a 6% increase in sales to this market in 1H15.

## *Economic Outlook*

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

In May 2015, the International Monetary Fund (IMF) lowered its economic growth estimate for the US to 2.5% in 2015 and 3% in 2016, down from 3.1% in both 2015 and 2016 previously (April 2015). The IMF said that the US economy in the first quarter of 2015 was derailed by unfavorable weather, a sharp contraction in oil sector investment, the West Coast port strike, and the effects of a stronger dollar. While these developments represent a temporary drag on the US economy, the IMF said that a solid labor market, accommodative financial conditions, and cheaper oil should support a more dynamic path for the remainder of the year.

The second estimate of US GDP growth (released on August 27, 2015) showed the US economy grew at an annual rate of 3.7% in 2Q15, up from a growth estimate of 2.3% (July 30, 2015). The upward revision to GDP growth reflected upward revisions to business investment, inventory investment, state and local government spending, and consumer spending.

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

## *Competition*

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

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

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

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

| Company | Sales TTM | Gross Margin |
|---|---|---|
| Graphic Packaging | $4.1B (6/15) | 19.1% |
| Packaging Corp. of America | $5.8B (6/15) | 21.1% |
| Greif | $4.0B (4/15) | 20.3% |
| Bemis Company | $4.2B (6/15) | 20.4% |
| Sealed Air Corp. | $7.5B (6/15) | 36.0% |
| UFP Technologies | $141.2M (6/15) | 26.1% |

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*

*2015 Forecast*

For 2015, we project revenue of $144 million ($140 million previously) and net income of $8.6 million or $1.20 per share (previously $8.2 million or $1.13 per share). Excluding the $1.6 million one-time costs associated with plant consolidations, EPS would be approximately $1.34. Our increased projections primarily reflect 2Q15 results and a slight increase in the growth rate of 2H15 sales to 4% from 3% in 1H15 as demand from the military market rebounds (for components for military uniforms and equipment).

In 1Q15, the company acquired a commercial building in Newburyport, Massachusetts for approximately $6.8 million. UFPT expects cost savings of approximately $400,000 annually as a result of this consolidation which is expected to be completed on or before October 31, 2015. Combined with the 2014 consolidations (in California and Michigan), cost savings are projected to be approximately $1.7 million annually.

Our increased revenue expectations should boost gross margins to 27.6% from 26.5% as relatively fixed overhead costs are measured against increased sales. SG&A expenses should increase to $25 million from $23.8 million in 2014 due primarily to increased compensation costs offset in part by the absence of over $300,000 of costs associated with a one-time write-off of bad debt and increased employee healthcare costs stemming from more frequent large claims. SG&A margins are projected to increase to 17.3%. Operating income is projected to increase to $13.2 million from $11.6 million with margins increasing to 9.2% from 8.3%. Taxes are estimated at 35%.

In 2015, we project $16.6 million cash from operations consisting primarily of cash earnings and a decrease in refundable income taxes. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $4.1 million to $38.2 million at the end of 2015.

*2016 Forecast*

For 2016, we project revenue growth of 4% to $149.7 million ($146 million previously), in line with the company's historic growth rate and projected growth rates of the company's end markets (6.1% medical, 2.3% automotive, 4% industrial, 1.5% consumer/electronics, and 0.5% defense for a weighted average growth rate of approximately 4%). We project net income of $12.6 million or $1.74 per share ($12.6 million or $1.72 per share previously). Our higher EPS projection on unchanged income is due to a lower share count stemming from the company's recent stock repurchases. A full year of cost savings from the 2015 plant consolidations should widen gross margins to 29.6%.

SG&A expenses should increase to $25.2 million from $25 million in 2015 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.9%. Operating income is projected to increase to $19.3 million from $13.3 million with margins increasing to 12.8% from 9.2%. Taxes are estimated at 35%.

In 2016, we project $18.6 million cash from operations consisting primarily of cash earnings. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by $12.9 million to $51 million at the end of 2016.

## ***2Q and 1H15 Financial Results***

*2Q15* - Sales increased 7% to $36.5 million. Net income increased to $2.3 million or $0.32 per share from $1.9 million or $0.26 per share. We projected 2Q15 sales of $34.1 million and net income of $1.6 million or $0.22 per share.

The increase in sales was primarily due to increased sales to the medical, aerospace and defense and automotive markets, offset in part by decreased sales to the consumer electronics market. The company said that demand for medical components remains high and there was a notable uptick in demand for components for military uniforms and equipment.

Gross margins increased slightly to 28.2% from 28.1% due primarily to improved overhead coverage. SG&A expenses increased to $6.8 million from $6.5 million due primarily to increased compensations costs and other inflationary increases. Restructuring costs associated with the company's plant consolidation was $30,000. Operating income increased to $3.5 million from $2.8 million resulting in margins increasing to 9.6% from 8.2%. The company showed an effective income tax rate of 35%.

*1H15* - Sales increased 3% to $70.5 million. Net income remained flat at $3.9 million or $0.55 per share.

The increase in sales was primarily due to increased sales to the medical, aerospace and defense and automotive markets, offset in part by decreased sales to the consumer electronics market. The company said that demand for medical components remains high and there was a notable uptick in demand for components for military uniforms and equipment.

Gross margins decreased to 26.9% from 27.3% due primarily to increased material and labor costs. SG&A expenses increased to $12.8 million from $12.4 million due primarily to inflationary increases. Restructuring costs associated with the company's plant consolidation was $108,000. Operating income increased to $6.1 million from $6 million resulting in margins decreasing to 8.6% from 8.7%. The company showed an effective income tax rate of 35%.

Income Statement
(in thousands $)

| | 6mos15A | 6mos14A |
|---|---|---|
| Net sales | 70,476 | 68,634 |
| Cost of sales | 51,544 | 49,912 |
| Gross profit | 18,932 | 18,722 |
| Extraordinary items | 77 | 312 |
| SG&A | 12,800 | 12,428 |
| Operating income | 6,055 | 5,982 |
| Interest exp, other inc and exp | (15) | 52 |
| Income before taxes | 6,040 | 6,034 |
| Income tax | 2,114 | 2,112 |
| Net Income / (Loss) | 3,926 | 3,922 |
| EPS | 0.55 | 0.55 |
| Shares Outstanding | 7,203 | 7,160 |
| Margin Analysis | | |
| Gross margin | 26.9% | 27.3% |
| SG&A | 18.2% | 18.1% |
| Operating margin | 8.6% | 8.7% |
| Tax rate | 35.0% | 35.0% |
| Year / Year Growth | | |
| Total Revenues | 2.7% | |
| Net Income | 0.1% | |
| EPS | (0.5)% | |

Source: Company filings

*Liquidity*

The company has a strong balance sheet. Total debt is $2.4 million, tangible equity is $91.8 million, and cash (approximately $4.09 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 earnings of $6.9 million and a $1.2 million increase in working capital resulted in $5.7 million cash from operations in the first six months of 2015. The increase in working capital was primarily due to increases in accounts receivable and prepaid expenses partially offset by a decrease in refundable income taxes. Capital expenditures of $10.5 million, including additions of manufacturing machinery and equipment associated with plant consolidations and the purchase of a new manufacturing and headquarters building in Massachusetts, were the primary drain on cash resulting in a $4.9 million decrease in cash to $29.2 million as of June 30, 2015.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of June 30, 2015. 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, 2015.

UFPT has a $5 million 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was $2.4 million as of June 30, 2015. The loan is secured by the related molded fiber machines.

## *Risks*

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

Dependence on a small number of customers

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

Competition

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

Economic conditions

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

Environmental considerations

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

Liquidity

With only 7.1 million shares outstanding and 5.7 million in the float, liquidity issues must be considered. Average daily volume has been approximately 44,000 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 $)

| | 2012A | 2013A | 2014A | 6/15A | 2015E | 2016E |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 33,479 | 37,303 | 34,052 | 29,173 | 38,154 | 51,045 |
| Receivables | 17,836 | 17,032 | 16,470 | 19,518 | 17,022 | 17,699 |
| Inventories | 9,695 | 11,048 | 12,893 | 12,832 | 13,117 | 13,259 |
| Prepaid expenses | 654 | 690 | 664 | 1,664 | 675 | 675 |
| Refundable income taxes | 1,714 | 1,537 | 3,192 | 479 | 479 | 479 |
| Deferred income taxes | 1,116 | 1,222 | 1,142 | 1,155 | 1,155 | 1,155 |
| Total current assets | 64,494 | 68,832 | 68,413 | 64,821 | 70,602 | 84,312 |
| Net property, plant and equipment | 23,318 | 25,507 | 34,843 | 43,122 | 43,502 | 44,474 |
| Goodwill | 7,039 | 7,322 | 7,322 | 7,322 | 7,322 | 7,322 |
| Intangible assets | 2,084 | 1,346 | 953 | 794 | 635 | 317 |
| Other assets | 1,682 | 2,013 | 2,159 | 2,203 | 2,203 | 2,203 |
| **Total assets** | **98,617** | **105,020** | **113,690** | **118,262** | **124,264** | **138,628** |
| | | | | | | |
| Current portion of long-term debt | 1,550 | 976 | 993 | 1,002 | 1,002 | 1,002 |
| Accounts payable | 4,088 | 3,081 | 5,398 | 4,473 | 5,492 | 5,551 |
| Accrued expenses | 7,593 | 8,265 | 5,222 | 6,146 | 5,397 | 5,612 |
| Total current liabilities | 13,231 | 12,322 | 11,613 | 11,621 | 11,891 | 12,165 |
| Long-term debt | 8,314 | 2,867 | 1,873 | 1,368 | 1,368 | 868 |
| Deferred income taxes | 1,589 | 2,436 | 3,588 | 3,795 | 3,795 | 3,795 |
| Other liabilities | 2,222 | 1,805 | 1,624 | 1,553 | 1,553 | 1,553 |
| **Total liabilities** | **25,356** | **19,430** | **18,698** | **18,337** | **18,607** | **18,381** |
| **Total stockholders' equity** | **73,261** | **85,590** | **94,992** | **99,925** | **105,657** | **120,247** |
| **Total liabilities & stockholders' equity** | **98,617** | **105,020** | **113,690** | **118,262** | **124,264** | **138,628** |

Source: Company filings and Taglich Brothers' estimates

## Annual Income Statements
(in thousands $)

| | 2012A | 2013A | 2014A | 2015E | 2016E |
|---|---|---|---|---|---|
| Net sales | 130,962 | 139,223 | 139,307 | 143,976 | 149,700 |
| Cost of sales | 92,777 | 98,574 | 102,427 | 104,208 | 105,336 |
| Gross profit | 38,185 | 40,649 | 36,880 | 39,768 | 44,364 |
| | | | | | |
| Extraordinary items | (12) | 11 | 1,472 | 1,577 | - |
| SG&A | 21,531 | 23,240 | 23,847 | 24,975 | 25,225 |
| Operating income | 16,666 | 17,398 | 11,561 | 13,216 | 19,139 |
| | | | | | |
| Non-operating (expenses) income | (92) | (205) | 204 | 84 | 200 |
| Income before taxes | 16,574 | 17,193 | 11,765 | 13,300 | 19,339 |
| Income tax | 5,679 | 5,917 | 4,206 | 4,655 | 6,769 |
| | | | | | |
| Net Income / (Loss) | 10,895 | 11,276 | 7,559 | 8,645 | 12,570 |
| EPS | 1.55 | 1.59 | 1.05 | 1.20 | 1.74 |
| Shares Outstanding | 7,028 | 7,105 | 7,175 | 7,206 | 7,210 |
| | | | | | |
| Margin Analysis | | | | | |
| Gross margin | 29.2% | 29.2% | 26.5% | 27.6% | 29.6% |
| SG&A | 16.4% | 16.7% | 17.1% | 17.3% | 16.9% |
| Operating margin | 12.7% | 12.5% | 8.3% | 9.2% | 12.8% |
| Pretax margin | 12.7% | 12.3% | 8.4% | 9.2% | 12.9% |
| Tax rate | 34.3% | 34.4% | 35.8% | 35.0% | 35.0% |
| | | | | | |
| Year / Year Growth | | | | | |
| Total Revenues | 2.9% | 6.3% | 0.1% | 3.4% | 4.0% |
| Net Income | 5.3% | 3.5% | (33.0)% | 14.4% | 45.4% |
| EPS | 4.9% | 2.4% | (33.6)% | 13.9% | 45.3% |

Source: Company filings and Taglich Brothers' estimates

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

| | 3/14A | 6/14A | 9/14A | 12/14A | 2014A | 3/15A | 6/15A | 9/15E | 12/15E | 2015E | 3/16E | 6/16E | 9/16E | 12/16E | 2016E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net sales | 34,609 | 34,025 | 35,406 | 35,267 | 139,307 | 33,977 | 36,499 | 36,700 | 36,800 | 143,976 | 36,400 | 37,600 | 37,800 | 37,900 | 149,700 |
| Cost of sales | 25,580 | 24,549 | 25,723 | 26,575 | 102,427 | 25,339 | 26,206 | 26,314 | 26,349 | 104,208 | 26,026 | 26,320 | 26,460 | 26,530 | 105,336 |
| Gross profit | 9,029 | 9,476 | 9,683 | 8,692 | 36,880 | 8,638 | 10,293 | 10,386 | 10,451 | 39,768 | 10,374 | 11,280 | 11,340 | 11,370 | 44,364 |
| Extraordinary items | - | 222 | 714 | 536 | 1,472 | 47 | 30 | 800 | 700 | 1,577 | - | - | - | - | - |
| SG&A | 5,834 | 6,466 | 5,871 | 5,676 | 23,847 | 6,024 | 6,776 | 6,075 | 6,100 | 24,975 | 6,100 | 6,800 | 6,150 | 6,175 | 25,225 |
| Operating income | 3,195 | 2,788 | 3,098 | 2,480 | 11,561 | 2,567 | 3,487 | 3,511 | 3,651 | 13,216 | 4,274 | 4,480 | 5,190 | 5,195 | 19,139 |
| Non-operating (expenses) income | (22) | 73 | 81 | 72 | 204 | (24) | 8 | 50 | 50 | 84 | 50 | 50 | 50 | 50 | 200 |
| Income before taxes | 3,173 | 2,861 | 3,179 | 2,552 | 11,765 | 2,543 | 3,495 | 3,561 | 3,701 | 13,300 | 4,324 | 4,530 | 5,240 | 5,245 | 19,339 |
| Income tax | 1,111 | 1,001 | 1,113 | 981 | 4,206 | 890 | 1,223 | 1,246 | 1,295 | 4,655 | 1,513 | 1,586 | 1,834 | 1,836 | 6,769 |
| Net Income / (Loss) | 2,062 | 1,860 | 2,066 | 1,571 | 7,559 | 1,653 | 2,272 | 2,315 | 2,406 | 8,645 | 2,811 | 2,945 | 3,406 | 3,409 | 12,570 |
| EPS | 0.29 | 0.26 | 0.29 | 0.22 | 1.05 | 0.23 | 0.32 | 0.32 | 0.33 | 1.20 | 0.39 | 0.41 | 0.47 | 0.47 | 1.74 |
| Shares Outstanding | 7,148 | 7,168 | 7,186 | 7,192 | 7,175 | 7,193 | 7,210 | 7,210 | 7,210 | 7,206 | 7,210 | 7,210 | 7,210 | 7,210 | 7,210 |
| Margin Analysis | | | | | | | | | | | | | | | |
| Gross margin | 26.1% | 27.9% | 27.3% | 24.6% | 26.5% | 25.4% | 28.2% | 28.3% | 28.4% | 27.6% | 28.5% | 30.0% | 30.0% | 30.0% | 29.6% |
| SG&A | 16.9% | 19.0% | 16.6% | 16.1% | 17.1% | 17.7% | 18.6% | 16.6% | 16.6% | 17.3% | 16.8% | 18.1% | 16.3% | 16.3% | 16.9% |
| Operating margin | 9.2% | 8.2% | 8.7% | 7.0% | 8.3% | 7.6% | 9.6% | 9.6% | 9.9% | 9.2% | 11.7% | 11.9% | 13.7% | 13.7% | 12.8% |
| Pretax margin | 9.2% | 8.4% | 9.0% | 7.2% | 8.4% | 7.5% | 9.6% | 9.7% | 10.1% | 9.2% | 11.9% | 12.0% | 13.9% | 13.8% | 12.9% |
| Tax rate | 35.0% | 35.0% | 35.0% | 38.4% | 35.8% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% | 35.0% |
| Year / Year Growth | | | | | | | | | | | | | | | |
| Total Revenues | 2.7% | -5.0% | 2.0% | 0.8% | 0.1% | -1.8% | 7.3% | 3.7% | 4.3% | 3.4% | 7.1% | 3.0% | 3.0% | 3.0% | 4.0% |
| Net Income | 1.6% | (37.6)% | (28.4)% | (53.5)% | (33.0)% | (19.8)% | 22.2% | 12.0% | 53.1% | 14.4% | 70.0% | 29.6% | 47.1% | 41.7% | 45.4% |
| EPS | 0.7% | (38.3)% | (29.2)% | (53.9)% | (33.6)% | (20.3)% | 21.4% | 11.7% | 52.8% | 13.9% | 69.6% | 29.6% | 47.1% | 41.7% | 45.3% |

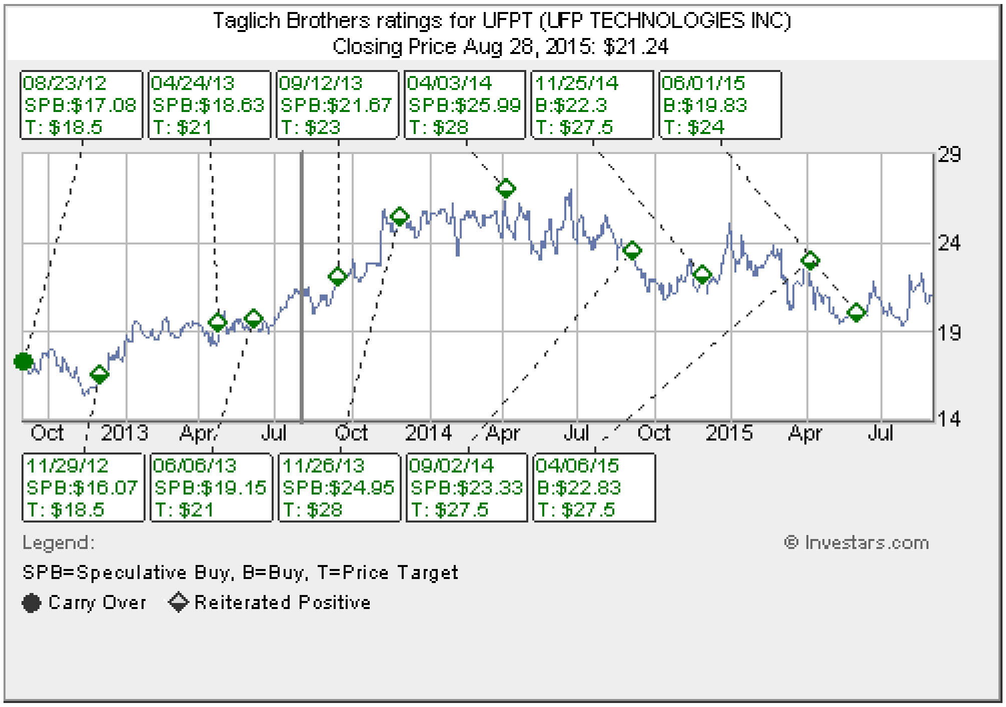
Source: Company filings and Taglich Brothers' estimates

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

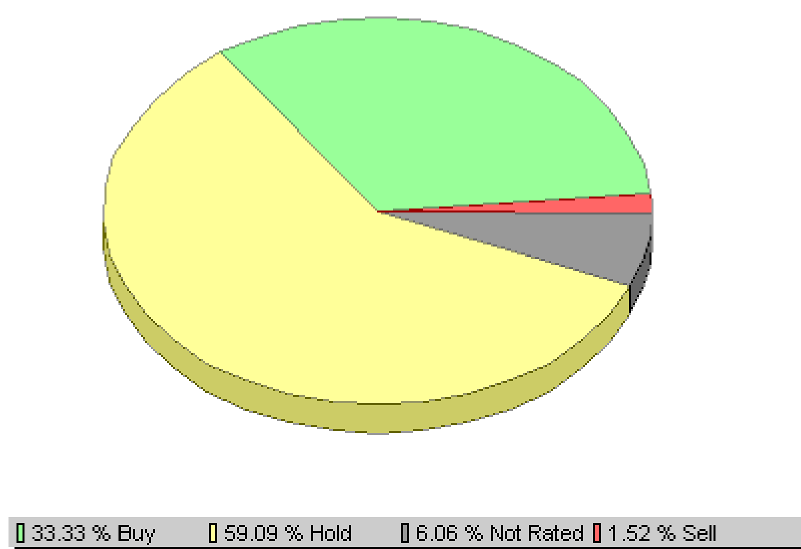
| | 2012A | 2013A | 2014A | 6mos15A | 2015E | 2016E |
|---|---|---|---|---|---|---|
| Net income | 10,895 | 11,276 | 7,559 | 3,926 | 8,645 | 12,570 |
| Depreciation & amortization | 2,928 | 4,084 | 4,376 | 2,341 | 5,232 | 5,346 |
| (Gain) loss on disposal of property, plant and equipment | (12) | 11 | 5 | (31) | (31) | - |
| Share-based compensation | 860 | 924 | 1,119 | 647 | 1,300 | 1,300 |
| Excess tax benefit on share-based compensation | (832) | (818) | (1,219) | (219) | (440) | (440) |
| Deferred income taxes | 610 | 740 | 1,232 | 194 | 194 | 439 |
| Cash earnings | 14,449 | 16,217 | 13,072 | 6,858 | 14,900 | 19,215 |
| *Changes in assets and liabilities* | | | | | | |
| Receivables | (842) | 804 | 562 | (3,048) | (552) | (677) |
| Inventories | 801 | (1,353) | (1,845) | 61 | (224) | (142) |
| Prepaid expenses | (65) | (36) | 26 | (1,000) | (11) | - |
| Refundable income taxes | (695) | 994 | (436) | 2,932 | 2,380 | - |
| Accounts payable | 384 | (1,007) | 2,317 | (925) | 94 | 59 |
| Accrued expenses and other | 2,143 | 1,272 | (2,243) | 924 | 175 | 215 |
| Retirement and other liabilities | 190 | (417) | (181) | (71) | (71) | - |
| Other assets | (203) | (368) | (146) | (44) | (44) | - |
| (Increase) decrease in working capital | 1,713 | (111) | (1,946) | (1,171) | 1,747 | (545) |
| **Net Cash Provided by Operations** | **16,162** | **16,106** | **11,126** | **5,687** | **16,647** | **18,671** |
| Additions to property, plant and equipment | (11,994) | (5,830) | (13,436) | (10,461) | (12,800) | (6,000) |
| Redemption of cash value life insurance | - | 37 | - | - | - | - |
| Proceeds from sale of property, plant and equipment | 86 | 1 | 112 | 31 | 31 | - |
| Acquisitions | (3,596) | (600) | - | - | - | - |
| **Net Cash Used in Investing** | **(15,504)** | **(6,392)** | **(13,324)** | **(10,430)** | **(12,769)** | **(6,000)** |
| Proceeds from long-term borrowings | 4,384 | 580 | - | - | - | - |
| Distribution to United Development Company partners | (1,196) | - | - | - | - | - |
| Tax benefit from exercise of non-qualified stock options | 832 | 818 | 1,219 | 219 | 440 | 440 |
| Proceeds from exercise of stock options | 365 | 191 | 336 | 220 | 440 | 440 |
| Payment of statutory withholdings for stock options exercised | (672) | (879) | (831) | (79) | (160) | (160) |
| Principal repayments of long-term debt | (740) | (6,601) | (977) | (496) | (496) | (500) |
| Payment of contingent note payable | - | - | (800) | - | - | - |
| Cash settlement of restricted stock units | - | - | - | - | - | - |
| **Net Cash Provided by (Used in) Financing** | **2,973** | **(5,891)** | **(1,053)** | **(136)** | **224** | **220** |
| **Net Change in Cash** | **3,631** | **3,823** | **(3,251)** | **(4,879)** | **4,102** | **12,891** |
| **Cash - Beginning of Period** | **29,849** | **33,480** | **37,303** | **34,052** | **34,052** | **38,154** |
| **Cash - End of Period** | **33,480** | **37,303** | **34,052** | **29,173** | **38,154** | **51,045** |

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 | 1 | 4 |
| Hold | | |
| Sell | | |
| Not Rated | | |

## Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company within the last three years.

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## Analyst Certification

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

## Public Companies Mentioned in this Report

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

## Meaning of Ratings

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

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

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

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

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

**Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.