

Research Report – Update

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

UFP Technologies, Inc.

Rating: Speculative Buy

John Nobile

September 2, 2014

UFPT \$23.33 — (NASDAQ CM)

	2012A	2013A	2014E	2015E
Revenues (millions)	\$131.0	\$139.2	\$140.6	\$147.0
Earnings per share (diluted)	\$1.55	\$1.59	\$1.29	\$1.71
52-Week range	\$27.43 – \$20.21			Fiscal year ends: December
Shares outstanding as of 8/1/14	7.1 million			Revenue per share (TTM) \$19.37
Approximate float	5.6 million			Price/Sales (TTM) 1.2X
Market capitalization	\$166 million			Price/Sales (2015)E 1.2X
Tangible book value/share	\$11.66			Price/Earnings (TTM) 16.3X
Price/tangible book	2.0X			Price/Earnings (2015)E 13.6X

UFP Technologies designs and manufactures high performance cushion packaging and molded fiber products and specialty foam and plastic products. These products are used as protection for fragile and valuable items, and are sold primarily to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets. (www.ufpt.com)

Key investment considerations:

Reiterate Speculative Buy rating. Lowering twelve-month price target to \$27.50 (previously \$30.00) due to reduced earnings expectations.

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

A planned plant consolidation in 3Q14 is projected to reduce costs by approximately \$0.75 million annually, driving gross margin improvement to 30% by 2015 from 28.4% in 2013.

For 2014, we project revenue of \$140.6 million and EPS of \$1.29, down from our earlier projections of \$144.8 million revenue and EPS of \$1.50 to reflect 2Q14 results and a greater than expected reduction in military sales.

For 2015, we project revenue of \$147 million and EPS of \$1.71, down from previous projections of \$151 million revenue and EPS of \$1.85. Our lowered projections stem from a greater than expected reduction in military sales.

2Q14 revenue (released 8/8/14) decreased 5% to \$34 million and EPS decreased to \$0.26. We projected 2Q14 revenue of \$37 million and EPS of \$0.41. Results were adversely affected by a decline in aerospace and defense market spending. However, aerospace and defense sales are expected to improve in 2H14.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies but lowering our **twelve-month price target to \$27.50** (previously \$30.00) due to reduced earnings expectations.

UFPT is currently trading at a multiple of 16X TTM earnings, in line with its 2013 average of 16X. The company's direct competitors are also trading at an average multiple of 16X TTM earnings (excludes Graphic Packaging's 50X multiple and Sealed Air's 45X multiple). Applying the current PE multiple to our 2015 earnings estimate of \$1.71 per share gives us a price target of approximately \$27.50.

In our view, this stock is suitable for highly risk tolerant investors. With most of the company's sales to economically sensitive end markets, any slowing in economic growth could reduce our earnings expectations. Also, reductions in defense spending have adversely affected 1H14 results.

Business

UFP Technologies, headquartered in Georgetown, Massachusetts, designs and manufactures engineered packaging utilizing molded fiber, vacuum-formed plastics, and molded and fabricated foam plastic products. The company also designs and manufactures engineered component products using laminating, molding, and fabricating technologies. UFPT's sales are to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the US.

Components products accounted for 67% of sales in 2013 while packaging products comprised 33%. An estimated 35% 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, electronics, and industrial) each account for an estimated 10% to 20% of the company's revenue.

The company's high-performance cushion packaging products provide protection for fragile and valuable items, and are sold primarily to original equipment and component manufacturers. Molded fiber products are used for packaging high volume consumer goods, including computer components, medical devices, other light electronics, candles, and health and beauty products.

UFPT's component products include automotive interior trim, athletic padding, industrial safety belts, components for medical equipment and devices, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

The company differentiates itself through the design and production of customized 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 2014, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 1.8% to \$10.4 billion over the six years to 2019. However, UFP Technologies' revenue should grow at a higher rate given 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 that should influence the medical device industry over the next five years.

The Patient Protection and Affordable Care Act (PPAC) has created as 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 reduce the number of uninsured people.

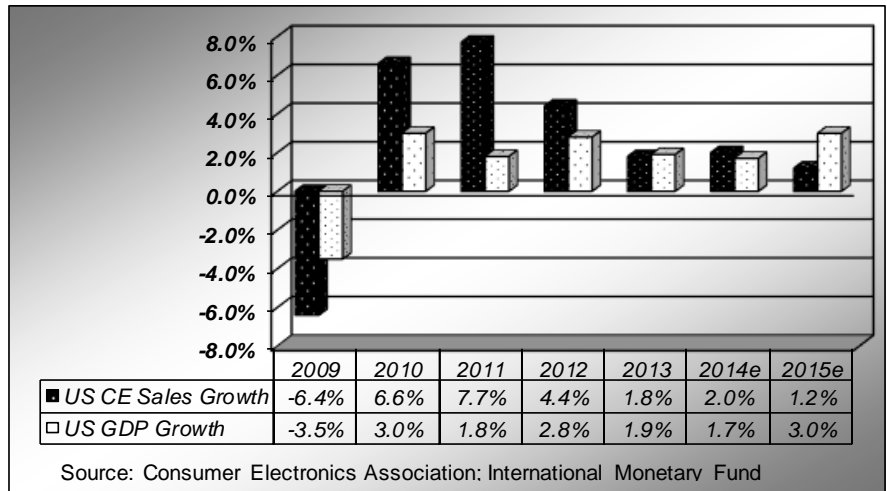
In 2013, a new Medicare competitive bidding program on durable medical equipment went into effect. Medicare uses the lower prices on the bids from this program to set the amount it will pay for equipment and supplies. Reduced pricing for medical equipment could have an adverse effect on prices medical equipment manufacturers are willing to pay for packaging products. However, the company has not seen any impact from this.

The Patient Protection and Affordable Care Act imposed a 2.3% excise tax on the sale price of medical devices effective January 1, 2013. Republican efforts to repeal the tax since it went into effect have been unsuccessful and, as of the date of this report, the tax still stands. While this tax is expected to squeeze profit margins of medical device manufacturers, the company said the tax imposed by this Act did not adversely impact its pricing to the medical market.

In August 2014, IBISWorld forecasted medical device industry average annual sales growth of approximately 6.6% to \$55 billion during the six years to 2020.

In April 2014, IBISWorld projected the US car and automobile industry to show average annual sales growth of 1.4% to \$110.7 billion in the six years to 2020. Growth will be driven by renewed consumer spending and a move toward green (hybrid and electric fuel-efficient) vehicles. However, a slowing US economy could adversely impact sales of cars through our forecast horizon.

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 five years with the Consumer Electronics Association’s projections for 2014.



In May 2014, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 1.7% to \$84.1 billion during the six years to 2020. This growth will be driven by new technologies (like tablet computers and mobile devices) and renewed consumer spending. In August 2014, the US Census Bureau reported that new orders for computers and electronics were up 1% sequentially in June 2014. However, computer and electronics orders decreased sequentially by 1.5% in May 2014 following a modest sequential increase of 0.2% in April 2014.

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 in 2013 declined by 7% and is projected to remain relatively flat in 2014 and 2015 according to the most recent US Department of Defense budget request (March 2014). This reduced level of defense spending is likely to have an adverse effect on UFPT’s sales to this market.

Economic Outlook

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

In July 2014, The International Monetary Fund (IMF) lowered its 2014 economic growth estimate for the US to 1.7%, down from its April 2014 estimate of 2.8%. The IMF said the US inventory overhang at the end of 2013 turned out to be larger than expected, leading to a stronger correction. Further, a harsh winter dampened demand, exports declined sharply after a strong fourth quarter, and output contracted in 1Q14. The IMF’s growth estimate for 2015 remained unchanged at 3.0%.

In August 2014, the US Bureau of Economic Analysis (BEA) revised its GDP estimate showing the US economy expanded 4.2% in 2Q14, up from its previous estimate of 4%. Part of the reason for the upturn was stronger business investment.

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	\$4.4B (6/14)	17.0%
Packaging Corp. of America	\$5.0B (6/14)	21.8%
Greif	\$4.4B (4/14)	19.0%
Bemis Company	\$5.0B (6/14)	18.9%
Sealed Air Corp.	\$7.7B (6/14)	34.1%
UFP Technologies	\$138.3M (6/14)	28.6%
Source: Company filings		

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

2014 Forecast

For 2014, we project revenue of \$140.6 million (\$144.8 million previously) and net income of \$9.3 million or \$1.29 per share (\$10.8 million or \$1.50 per share previously). Excluding the \$1.5 million one-time costs associated with a plant consolidation, EPS would be approximately \$1.42. Our lower projections reflect 2Q14 results and a greater than expected reduction in military sales.

Our estimates reflect approximately \$1.5 million in one-time expenses related to a planned plant consolidation. In 3Q14, the company plans to consolidate its Glendale Heights, Illinois facility into its Grand Rapids, Michigan facility. The plant consolidation is estimated to reduce costs by approximately \$0.75 million annually starting in 4Q14 which should result in moderate gross margin improvement. However, for 2014, gross margins are expected to decrease to 28.4% from 29.2% in 2013 due to product mix (increased sales of lower-margin molded fiber packaging products).

SG&A expenses should increase to \$24.2 million from \$23.2 million in 2013 due primarily to increased compensation costs. SG&A margins are projected at 17.2%. Operating income is projected to decrease to \$14.3 million from \$17.4 million with margins decreasing to 10.2% from 12.5%. Taxes are estimated at 35%.

In 2014, we project \$14.8 million cash from operations consisting of cash earnings of \$15.1 million and increases in working capital of \$321,000. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. Cash from operations should cover capital expenditures (includes approximately \$5 million for additional molded fiber equipment) and repayments of long-term debt, increasing cash by \$1.8 million to \$39.1 million at the end of 2014.

2015 Forecast

For 2015, we project revenue of \$147 million (\$151 million previously) and net income of \$12.5 million or \$1.71 per share (\$13.5 million or \$1.85 per share previously). Our lowered projections stem from a greater than expected reduction in military sales.

A full year of cost savings from the 2014 plant consolidation should widen gross margins to 30%. SG&A expenses should increase to \$24.7 million from \$24.2 million in 2014 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.8% due to the relatively fixed nature of SG&A expenses. Operating income is projected to increase to \$19.5 million from \$14.3 million with margins increasing to 13.2% from 10.2%. Taxes are estimated at 35%.

In 2015, we project \$17.6 million cash from operations consisting of cash earnings of \$18.7 million and increases in working capital of \$1.1 million. The increase in working capital is primarily due to increases in receivables and inventories offset in part by an increase in accrued expenses. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by \$11.6 million to \$50.7 million at the end of 2015.

2Q and 1H14 Financial Results

2Q14 - Sales decreased 5% to \$34 million. Net income decreased to \$1.9 million or \$0.26 per share from \$3 million or \$0.42 per share. We projected 2Q14 sales of \$37 million and net income of \$2.9 million or \$0.41 per share.

The decrease in sales was primarily due to a decline in sales to the aerospace and defense markets and a decline in sales to the automotive market from customer plant shutdowns. The company expects that aerospace and defense sales should show improvement in 2H14 based on customer forecasts. We project flat military sales for UFPT in 2014, in line with the overall projected military budget.

Gross margins decreased to 27.9% from 29.9% primarily due to less overhead coverage and higher depreciation costs. SG&A expenses increased to \$6.5 million from \$6.1 million due primarily to increased director compensation costs and increased bad debt expense due largely to one large account write-off. Operating income decreased to \$2.8 million from \$4.6 million resulting in margins decreasing to 8.2% from 12.9%. The company showed an effective income tax rate of 35%.

1H14 - Sales decreased 1% to \$68.6 million. Net income decreased to \$3.9 million or \$0.55 per share from \$5 million or \$0.71 per share.

The decrease in sales was primarily due to a decline in sales to the aerospace and defense market, partially offset by increased sales of molded fiber packaging due to continued demand for environmentally friendly packaging.

Gross margins decreased to 27.1% from 28.2% primarily due to less overhead coverage and higher depreciation costs. SG&A expenses increased to \$12.3 million from \$12 million due primarily to increased compensation costs. Operating income decreased to \$6 million from \$7.6 million resulting in margins decreasing to 8.7% from 10.9%. The company showed an effective income tax rate of 35%.

Liquidity

The company has a strong balance sheet. Total debt is \$3.4 million, tangible equity is \$82.3 million, and cash (approximately \$4.53 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.3 for the packaging and containers industry.

Cash earnings of \$5.8 million and a \$3.9 million increase in working capital resulted in \$1.9 million cash provided by operations in the first six months of 2014. The increase in working capital was primarily due to a \$2.4 million increase in inventories and a \$1.4 million decrease in accrued taxes and other expenses. Capital expenditures of \$4.3 million and a \$3 million escrow deposit decreased cash by \$5.3 million to \$32 million as of June 30, 2014.

UFPT has a \$40 million revolving credit facility with Bank of America with no borrowings as of June 30, 2014. 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, 2014.

Income Statement (in thousands \$)		
	6mos14A	6mos13A
Net sales	68,634	69,529
Cost of sales	50,050	49,908
Gross profit	18,584	19,621
Extraordinary items	312	11
SG&A	12,290	12,021
Operating income	5,982	7,589
Interest exp, other inc and exp	52	(85)
Income before taxes	6,034	7,504
Income tax	2,112	2,492
Net Income / (Loss)	3,922	5,012
EPS	0.55	0.71
Shares Outstanding	7,160	7,089
<u>Margin Analysis</u>		
Gross margin	27.1%	28.2%
SG&A	17.9%	17.3%
Operating margin	8.7%	10.9%
Tax rate	35.0%	33.2%
<u>Year / Year Growth</u>		
Total Revenues	(1.3)%	
Net Income	(21.7)%	
EPS	(22.5)%	
Source: Company filings		

UFPT has a \$5 million 1.83% fixed rate loan agreement to finance the purchase of two new molded fiber machines. The outstanding balance was \$3.4 million as of June 30, 2014. 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 2013. 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 5.6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 18,500 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>2011A</u>	<u>2012A</u>	<u>2013A</u>	<u>6/14A</u>	<u>2014E</u>	<u>2015E</u>
Cash and cash equivalents	29,849	33,479	37,303	31,960	39,092	50,697
Receivables	15,619	17,836	17,032	17,622	17,205	17,983
Inventories	9,758	9,695	11,048	13,429	11,279	11,533
Prepaid expenses	559	654	690	1,681	697	729
Refundable income taxes	1,086	1,714	1,537	1,625	1,276	1,721
Deferred income taxes	<u>1,169</u>	<u>1,116</u>	<u>1,222</u>	<u>1,256</u>	<u>1,256</u>	<u>1,256</u>
Total current assets	58,040	64,494	68,832	67,573	70,805	83,919
Net property, plant and equipment	13,346	23,318	25,507	27,791	31,174	32,195
Goodwill	6,481	7,039	7,322	7,322	7,322	7,322
Intangible assets	399	2,084	1,346	1,114	953	635
Other assets	<u>1,455</u>	<u>1,682</u>	<u>2,013</u>	<u>5,084</u>	<u>5,084</u>	<u>5,084</u>
Total assets	<u>79,721</u>	<u>98,617</u>	<u>105,020</u>	<u>108,884</u>	<u>115,338</u>	<u>129,155</u>
Current portion of long-term debt	581	1,550	976	985	985	985
Accounts payable	3,344	4,088	3,081	4,161	3,145	3,216
Accrued expenses	<u>5,540</u>	<u>7,593</u>	<u>8,265</u>	<u>6,834</u>	<u>8,349</u>	<u>8,727</u>
Total current liabilities	9,465	13,231	12,322	11,980	12,479	12,928
Long-term debt	5,639	8,314	2,867	2,372	2,372	1,372
Deferred income taxes	1,292	1,589	2,436	2,245	2,245	2,245
Other liabilities	<u>1,340</u>	<u>2,222</u>	<u>1,805</u>	<u>1,589</u>	<u>1,589</u>	<u>1,589</u>
Total liabilities	<u>17,736</u>	<u>25,356</u>	<u>19,430</u>	<u>18,186</u>	<u>18,685</u>	<u>18,134</u>
Total stockholders' equity	<u>61,985</u>	<u>73,261</u>	<u>85,590</u>	<u>90,698</u>	<u>96,652</u>	<u>111,021</u>
Total liabilities & stockholders' equity	<u>79,721</u>	<u>98,617</u>	<u>105,020</u>	<u>108,884</u>	<u>115,338</u>	<u>129,155</u>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements
(in thousands \$)

	<u>2011A</u>	<u>2012A</u>	<u>2013A</u>	<u>2014E</u>	<u>2015E</u>
Net sales	127,244	130,962	139,223	140,634	147,000
Cost of sales	<u>90,999</u>	<u>92,777</u>	<u>98,574</u>	<u>100,636</u>	<u>102,900</u>
Gross profit	36,245	38,185	40,649	39,998	44,100
Extraordinary items	(839)	(12)	11	1,452	-
SG&A	<u>21,368</u>	<u>21,531</u>	<u>23,240</u>	<u>24,225</u>	<u>24,650</u>
Operating income	15,716	16,666	17,398	14,321	19,450
Non-operating (expenses) income	<u>(27)</u>	<u>(92)</u>	<u>(205)</u>	<u>(49)</u>	<u>(200)</u>
Income before taxes	15,689	16,574	17,193	14,272	19,250
Income tax	<u>4,906</u>	<u>5,679</u>	<u>5,917</u>	<u>4,995</u>	<u>6,738</u>
Net Income / (Loss)	<u>10,346</u>	<u>10,895</u>	<u>11,276</u>	<u>9,276</u>	<u>12,513</u>
EPS	<u>1.48</u>	<u>1.55</u>	<u>1.59</u>	<u>1.29</u>	<u>1.71</u>
Shares Outstanding	6,999	7,028	7,105	7,185	7,300
<u>Margin Analysis</u>					
Gross margin	28.5%	29.2%	29.2%	28.4%	30.0%
SG&A	16.8%	16.4%	16.7%	17.2%	16.8%
Operating margin	12.4%	12.7%	12.5%	10.2%	13.2%
Pretax margin	12.3%	12.7%	12.3%	10.1%	13.1%
Tax rate	31.3%	34.3%	34.4%	35.0%	35.0%
<u>Year / Year Growth</u>					
Total Revenues	5.4%	2.9%	6.3%	1.0%	4.5%
Net Income	11.9%	5.3%	3.5%	(17.7)%	34.9%
EPS	8.0%	4.9%	2.4%	(18.7)%	32.8%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Quarterly Income Statements 2013 - 2015E

(in thousands \$)

	<u>3/13A</u>	<u>6/13A</u>	<u>9/13A</u>	<u>12/13A</u>	<u>2013A</u>	<u>3/14A</u>	<u>6/14A</u>	<u>9/14E</u>	<u>12/14E</u>	<u>2014E</u>	<u>3/15E</u>	<u>6/15E</u>	<u>9/15E</u>	<u>12/15E</u>	<u>2015E</u>
Net sales	33,697	35,832	34,700	34,993	139,223	34,609	34,025	35,800	36,200	140,634	35,100	37,900	36,850	37,150	147,000
Cost of sales	<u>24,795</u>	<u>25,113</u>	<u>24,538</u>	<u>24,128</u>	<u>98,574</u>	<u>25,580</u>	<u>24,549</u>	<u>25,167</u>	<u>25,340</u>	<u>100,636</u>	<u>24,570</u>	<u>26,530</u>	<u>25,795</u>	<u>26,005</u>	<u>102,900</u>
Gross profit	8,902	10,719	10,162	10,865	40,649	9,029	9,476	10,633	10,860	39,998	10,530	11,370	11,055	11,145	44,100
Extraordinary items	-	11	-	-	11	-	222	1,230	-	1,452	-	-	-	-	-
SG&A	<u>5,946</u>	<u>6,075</u>	<u>5,679</u>	<u>5,540</u>	<u>23,240</u>	<u>5,834</u>	<u>6,466</u>	<u>5,950</u>	<u>5,975</u>	<u>24,225</u>	<u>5,925</u>	<u>6,350</u>	<u>6,150</u>	<u>6,225</u>	<u>24,650</u>
Operating income	2,956	4,633	4,483	5,325	17,398	3,195	2,788	3,453	4,885	14,321	4,605	5,020	4,905	4,920	19,450
Non-operating (expenses) income	<u>(40)</u>	<u>(45)</u>	<u>(43)</u>	<u>(76)</u>	<u>(205)</u>	<u>(22)</u>	<u>73</u>	<u>(50)</u>	<u>(50)</u>	<u>(49)</u>	<u>(50)</u>	<u>(50)</u>	<u>(50)</u>	<u>(50)</u>	<u>(200)</u>
Income before taxes	2,916	4,588	4,440	5,249	17,193	3,173	2,861	3,403	4,835	14,272	4,555	4,970	4,855	4,870	19,250
Income tax	<u>886</u>	<u>1,606</u>	<u>1,554</u>	<u>1,872</u>	<u>5,917</u>	<u>1,111</u>	<u>1,001</u>	<u>1,191</u>	<u>1,692</u>	<u>4,995</u>	<u>1,594</u>	<u>1,740</u>	<u>1,699</u>	<u>1,705</u>	<u>6,738</u>
Net Income / (Loss)	<u>2,030</u>	<u>2,982</u>	<u>2,886</u>	<u>3,377</u>	<u>11,276</u>	<u>2,062</u>	<u>1,860</u>	<u>2,212</u>	<u>3,143</u>	<u>9,276</u>	<u>2,961</u>	<u>3,231</u>	<u>3,156</u>	<u>3,166</u>	<u>12,513</u>
EPS	<u>0.29</u>	<u>0.42</u>	<u>0.41</u>	<u>0.47</u>	<u>1.59</u>	<u>0.29</u>	<u>0.26</u>	<u>0.31</u>	<u>0.43</u>	<u>1.29</u>	<u>0.41</u>	<u>0.44</u>	<u>0.43</u>	<u>0.43</u>	<u>1.71</u>
Shares Outstanding	7,088	7,090	7,112	7,133	7,105	7,148	7,168	7,200	7,225	7,185	7,250	7,275	7,300	7,375	7,300
<u>Margin Analysis</u>															
Gross margin	26.4%	29.9%	29.3%	31.0%	29.2%	26.1%	27.9%	29.7%	30.0%	28.4%	30.0%	30.0%	30.0%	30.0%	30.0%
SG&A	17.6%	17.0%	16.4%	15.8%	16.7%	16.9%	19.0%	16.6%	16.5%	17.2%	16.9%	16.8%	16.7%	16.8%	16.8%
Operating margin	8.8%	12.9%	12.9%	15.2%	12.5%	9.2%	8.2%	9.6%	13.5%	10.2%	13.1%	13.2%	13.3%	13.2%	13.2%
Pretax margin	8.7%	12.8%	12.8%	15.0%	12.3%	9.2%	8.4%	9.5%	13.4%	10.1%	13.0%	13.1%	13.2%	13.1%	13.1%
Tax rate	30.4%	35.0%	35.0%	35.7%	34.4%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
<u>Year / Year Growth</u>															
Total Revenues	5.5%	6.4%	8.5%	4.9%	6.3%	2.7%	-5.0%	3.2%	3.4%	1.0%	1.4%	11.4%	2.9%	2.6%	4.5%
Net Income	(13.6)%	8.6%	11.2%	5.4%	3.5%	1.6%	(37.6)%	(23.4)%	(6.9)%	(17.7)%	43.6%	73.7%	42.7%	0.7%	34.9%
EPS	(14.3)%	8.0%	10.6%	4.3%	2.4%	0.7%	(38.3)%	(24.3)%	(8.1)%	(18.7)%	41.6%	71.1%	40.7%	(1.3)%	32.8%

Source: Company filings and Taglich Brothers' estimates

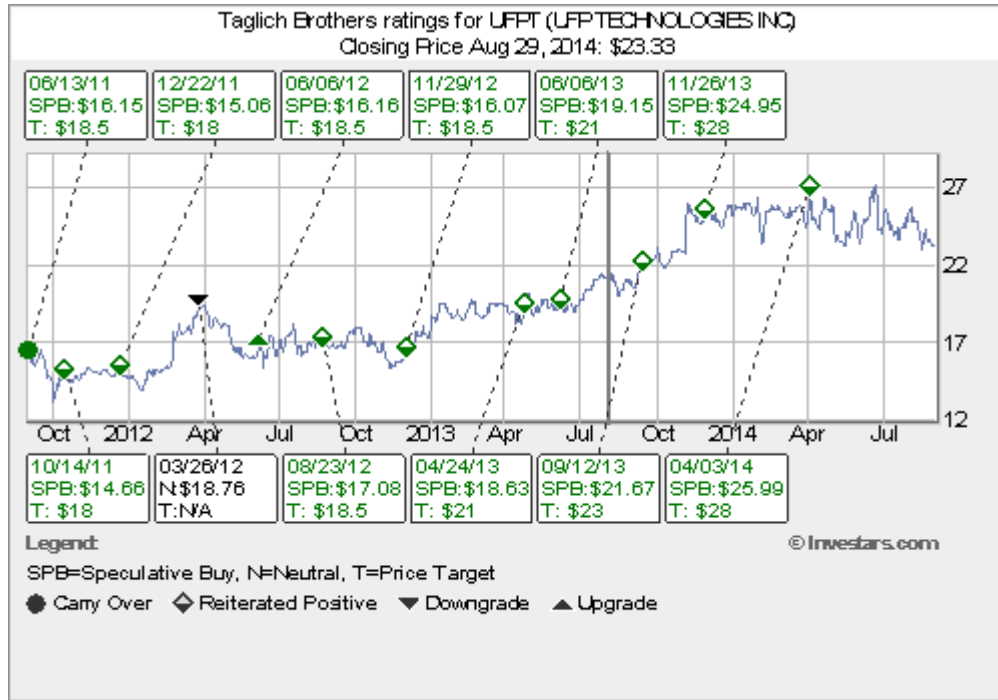
UFP Technologies, Inc.

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

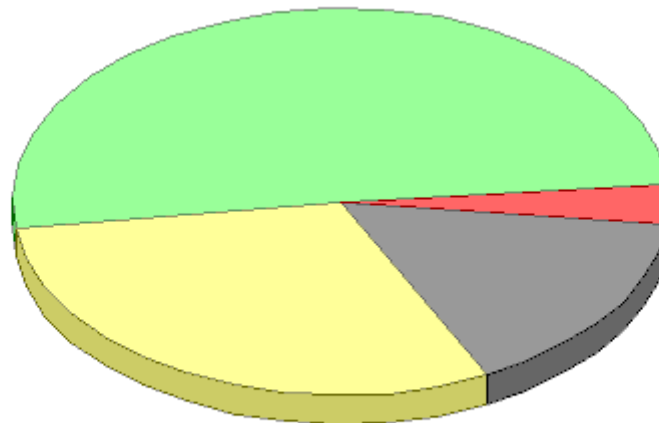
	2011A	2012A	2013A	6mos14A	2014E	2015E
Net income	10,784	10,895	11,276	3,922	9,276	12,513
Depreciation & amortization	2,781	2,928	4,084	2,247	4,726	4,797
Gain on acquisition	-	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(839)	(12)	11	(12)	(12)	-
Share-based compensation	1,089	860	924	730	1,330	1,400
Stock issued in lieu of compensation	55	-	-	-	-	-
Excess tax benefit on share-based compensation	(700)	(832)	(818)	(834)	(834)	(834)
Deferred income taxes	452	610	740	(225)	599	834
<i>Changes in assets and liabilities</i>						
Receivables	(985)	(842)	804	(590)	(173)	(779)
Inventories	(1,714)	801	(1,353)	(2,381)	(231)	(254)
Prepaid expenses	476	(65)	(36)	(991)	(7)	(32)
Refundable income taxes	327	(695)	994	746	261	(445)
Accounts payable	507	384	(1,007)	1,080	64	71
Accrued expenses and other	(440)	2,143	1,272	(1,431)	84	378
Retirement and other liabilities	(12)	190	(417)	(216)	(216)	-
Other assets	(65)	(203)	(368)	(103)	(103)	-
Net Cash Provided by Operations	11,716	16,162	16,106	1,942	14,765	17,649
Additions to property, plant and equipment	(3,741)	(11,994)	(5,830)	(4,309)	(10,000)	(5,500)
Escrow deposit	-	-	-	(2,968)	(2,968)	-
Redemption of cash value life insurance	-	-	37	-	-	-
Proceeds from sale of property, plant and equipment	1,223	86	1	22	22	-
Acquisitions	-	(3,596)	(600)	-	-	-
Net Cash Used in Investing	(2,518)	(15,504)	(6,392)	(7,255)	(12,946)	(5,500)
Proceeds from long-term borrowings	-	4,384	580	-	-	-
Distribution to United Development Company partners	(289)	(1,196)	-	-	-	-
Tax benefit from exercise of non-qualified stock options	700	832	818	834	834	834
Proceeds from exercise of stock options	250	365	191	323	323	323
Payment of statutory withholdings for stock options exercised	(830)	(672)	(879)	(701)	(701)	(701)
Principal repayments of long-term debt	(1,282)	(740)	(6,601)	(486)	(486)	(1,000)
Principle repayments of capital lease obligations	-	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
Net Cash Provided by (Used in) Financing	(1,451)	2,973	(5,891)	(30)	(30)	(544)
Net Change in Cash	7,747	3,631	3,823	(5,343)	1,789	11,605
Cash - Beginning of Period	22,102	29,849	33,480	37,303	37,303	39,092
Cash - End of Period	29,849	33,480	37,303	31,960	39,092	50,697

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



50.79 % Buy 30.16 % Hold 15.87 % Not Rated 3.17 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7
Hold	1	17
Sell		
Not Rated		

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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.

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.