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
September 13, 2016

UFPT $25.92 — (NASDAQ CM)

	2014A	2015A	2016E	2017E
Revenues (millions)	$139.3	$138.9	$144.9	$153.6
Earnings per share (diluted)	$1.05	$1.05	$1.35	$1.78

52-Week range	$27.12 – $20.40	Fiscal year ends:	December
Shares outstanding as of 8/2/16	7.2 million	Revenue per share (TTM)	$19.42
Approximate float	5.4 million	Price/Sales (TTM)	1.3X
Market capitalization	$187 million	Price/Sales (2017)E	1.2X
Tangible book value/share	$13.94	Price/Earnings (TTM)	25.2X
Price/tangible book	1.9X	Price/Earnings (2017)E	14.6X

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 on UFP Technologies. Increasing twelve-month price target to $30.00 from $25.00 previously due to an expanded multiple applied to increased earnings projections.

Continued strong demand from the medical device market (sales up 14% in 2015 and 13% in 1Q16), and a five-year, $45 million deal that more than doubles sales to a medical device manufacturer, should help drive growth in UFPT's sales through our forecast horizon.

Plant consolidations in 2015 and 2016 will cut costs by approximately $1 million annually, driving gross margin improvement from 27% in 2015 to 29.5% in 2017.

For 2016, we project revenue growth of 4% to $144.9 million and EPS of $1.35. Our higher projections ($143.5 million in revenue and EPS of $1.04 previously) primarily reflect 2Q16 results and an additional $1.7 million gain, or $0.15 per share after taxes, related to a settlement that was received in 3Q16.

For 2017, we project revenue growth of 6% to $153.6 million and EPS of $1.78. Our higher projections (previously $152.7 million in revenue and EPS of $1.70) are primarily due to continued strong growth in the medical market.

2Q16 revenue (10-Q released 8/9/16) increased 4% to $37.9 million. Net income increased to $2.7 million or $0.38 per share from $2.3 million or $0.32 per share. Excluding a $423,000 material overcharge settlement in 2Q16, net income was $2.5 million or $0.34 per share. We projected 2Q16 sales of $36.5 million and net income of $1.4 million or $0.19 per share.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

We are reiterating our Buy rating on UFP Technologies. Increasing twelve-month price target to $30.00 from $25.00 previously due to an expanded multiple applied to increased earnings projections.

Shares of UFPT currently trade at a forward earnings multiple of 15X, up from 13X three months earlier. The company's direct competitors are trading at an average forward multiple of 18X earnings. We believe the increase in UFPT's valuation is primarily due to the market's expectations for continued strong growth in sales to the medical market and margin expansion from the soon to be completed plant consolidations. With the strong growth in earnings we project, UFPT's forward multiple should approach that of its competitors. Applying a multiple of 18X to our 2017 earnings projection, discounted to account for execution risk, our year-ahead target is approximately $30.00.

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 41% 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 May 2016, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 2.3% to $12.9 billion through 2022. Industry growth is predicated on strong overall domestic demand. Demand for automobiles is expected to increase purchases of urethane used in seats and vehicle insulation, and increased consumer spending will increase polyurethane packaging production.

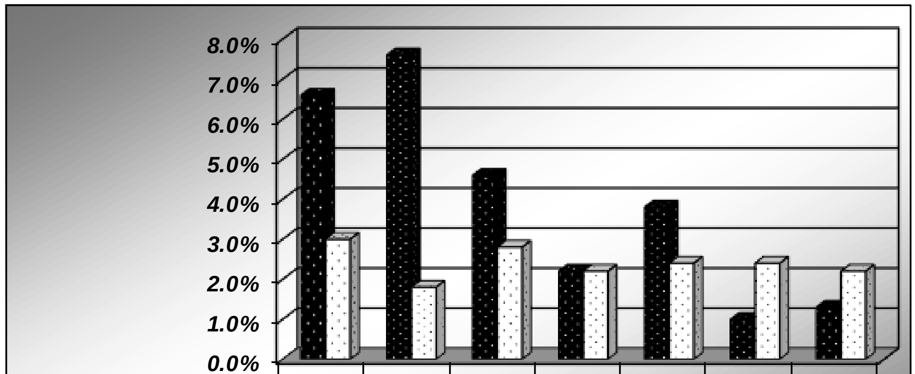
The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years.

The Patient Protection and Affordable Care Act (PPAC) imposed a 2.3% excise tax on the sale of medical devices which was expected to adversely impact the industry's profitability. However, this tax was suspended for manufacturers for a two year period beginning January 1, 2016 and ending December 31, 2017. This suspension is expected to increase profitability and new product development in the industry. The PPAC is also expected to benefit the industry as it aims to increase the number of insured people, driving increased usage of medical devices.

In May 2016, IBISWorld forecasted medical device industry average annual sales growth of approximately 2.8% to $55.1 billion during the six years to 2022.

In August 2016, IBISWorld projected the US car and automobile industry to show average annual sales growth of 1.7% to $133.9 billion in the six years to 2022. 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 five years with projections to 2016.



	2010	2011	2012	2013	2014	2015	2016e
US CE Sales Growth	6.6%	7.6%	4.6%	2.2%	3.8%	1.0%	1.3%
US GDP Growth	3.0%	1.8%	2.8%	2.2%	2.4%	2.4%	2.2%

Source: Consumer Technology Association; International Monetary Fund

In July 2016, IBISWorld projected sales at consumer electronics stores to be virtually flat at approximately $75.2 million over the six years to 2022. Consumer interest in big ticket items such as TVs and personal computers has waned due to market saturation and slowing innovation. Demand is expected to shift to accessories and peripherals as these goods are relatively inexpensive to produce, affordable to purchase and are usually designed to be used with items that consumers already own.

In July 2016, The Consumer Technology Association forecasted US consumer electronics retail sales to grow at an annual rate of approximately 1.3% to $286.6 billion in 2016. Growth will be driven by technologies such as smartphones and televisions.

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. The Pentagon's latest budget proposal of $583 billion for US defense spending in 2017 is $3 billion higher than 2016 and $20 billion higher than 2015. This boost in defense spending over the next two years should bode well for UFPT's sales to this market.

Economic Outlook

Most of UFPT's sales are to economically sensitive end markets. With UFPT's business conducted primarily in the US, the slowing economic growth projections for this area could constrain growth.

In July 2016, the International Monetary Fund (IMF) lowered its global economic growth forecast to 3.1% for 2016 and 3.4% for 2017, down from an earlier (April 2016) growth forecast of 3.2% for 2016 and 3.5% for 2017. The reduced growth estimate primarily reflects increased political uncertainty taking a toll on confidence and investment in the aftermath of the June 23, 2016 vote in the United Kingdom to leave the European Union.

The IMF lowered its economic growth estimate for the US to 2.2% for 2016, down from an earlier (April 2016) growth forecast of 2.4%, but kept it unchanged at 2.5% in 2017. The IMF said that 1Q16 growth was weaker than expected, triggering the downward revision to the 2016 forecast, but indicators of economic activity (such as labor and financial market indicators) point to a pick-up in 2Q16 and for the remainder of the year. The IMF projects the impact from the UK leaving the European Union to be muted for the US, as lower long-term interest rates and a more gradual path of monetary policy normalization are expected to broadly offset larger corporate spreads (difference between corporate and treasury bond yields), a stronger US dollar, and some decline in confidence.

The second estimate of US GDP growth (released on August 26, 2016) showed the US economy grew at an annual rate of 1.1% in 2Q16, up from 0.8% growth in 1Q16. The 2Q16 US GDP growth estimate primarily reflects a rise in consumer spending. Partly offsetting this contribution to GDP growth was a decline in inventory investment, housing investment, government spending, and business investment.

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	$4.2B (6/16)	18.7%
Packaging Corp. of America	$5.7B (6/16)	21.3%
Greif	$3.3B (7/16)	20.2%
Bemis Company	$4.0B (6/16)	21.9%
Sealed Air Corp.	$6.8B (6/16)	38.0%
UFP Technologies	$140.8M (6/16)	26.6%

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 plans to relocate certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility by September 30, 2016. Approximately $2.1 million in one-time expenses are expected in connection with these consolidations of which approximately $1.9 million has already been incurred through June 30, 2016 with the remaining $200,000 expected to be recognized in 3Q16. Annual cost savings from these consolidations, primarily in reduced real estate and labor costs, should be approximately $1 million.

2016 Forecast

For 2016, we project revenue growth of 4% to $144.9 million and net income of $9.8 million or $1.35 per share. Our higher projections ($143.5 million in revenue and net income of $7.5 million or $1.04 per share previously) primarily reflect 2Q16 results, strong growth in sales to the medical markets, and an additional $1.7 million or $0.15 per share after tax gain related to a material overcharge settlement that was received in 3Q16.

The recent consolidations should adversely affect gross margins for most of the year resulting in margin compression to 26.3% from 27% in 2015. SG&A expenses should increase to $24.7 million from $24 million in 2015 due primarily to increased compensation costs. SG&A margins are projected to decrease to 17.1% from 17.3% in 2015. Operating income is projected to increase to $15.2 million from $11.7 million with margins increasing to 10.5% from 8.4%. Taxes are estimated at 35.3%.

In 2016, we project $13.7 million cash from operations from cash earnings of $15.9 million and a $2.2 million increase in working capital. The increase in working capital is due primarily to an increase in prepaid expenses. Cash from operations should cover capital expenditures and repayment of debt, increasing cash by $7.3 million to $37.1 million at the end of 2016.

2017 Forecast

For 2017, we project revenue growth of 6% to $153.6 million and net income of $13 million or $1.78 per share. Our higher projections (previously $152.7 million in revenue and net income of $12.4 million or $1.70 per share) are primarily due to continued strong growth in the medical market driven by a five-year contract worth an estimated $45 million that more than doubles UFPT's annual sales to a medical device manufacturer. We project this contract should generate approximately $2 million of incremental revenue in 2017.

We project gross margins of 29.5%, up from 26.3% in 2016, due primarily to a full year of cost savings from the 2016 plant consolidation and increased overhead coverage. SG&A expenses should increase to $25.4 million from $24.7 million in 2016 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.5% from 17.1%. Operating income is projected to increase to $20 million from $15.2 million with margins increasing to 13% from 10.5%. Taxes are estimated at 35%.

In 2017, we project $18.4 million cash from operations from cash earnings of $19.2 million and a $747,000 increase in working capital. The increase in working capital is primarily due to an increase in receivables. Cash from operations should cover capital expenditures and repayment of long-term debt, increasing cash by $12.2 million to $49.3 million at the end of 2017.

2Q and 1H 2016 Financial Results

2Q16 - Sales increased 4% to $37.9 million. Net income increased to $2.7 million or $0.38 per share from $2.3 million or $0.32 per share. Excluding a $423,000 material overcharge settlement in 2Q16, net income was $2.5 million or $0.34 per share after taxes. We projected 2Q16 sales of $36.5 million and net income of $1.4 million or $0.19 per share.

The increase in sales was primarily a result of increased sales to the medical and consumer markets partially offset by decreased sales to the electronics and aerospace & defense markets. Medical market sales benefitted from a five-year contract with one of the company's larger customers in this market. The increase in sales to the consumer market was largely due to increased demand for molded fiber protective packaging. Aerospace & defense market sales suffered from continued cuts in government spending. The decrease in sales to the electronics market was primarily due to a temporary spike in demand for packaging from one of UFPT's larger customers in 2015 that caused difficult comparisons.

Gross margins decreased to 27.1% from 28.2% primarily due to increased material and labor costs as a result of recent plant consolidations and a one-time write-off of approximately $288,000 in obsolete tooling and inventory.

SG&A expenses decreased to $6.5 million from $6.8 million primarily due to lower salaries, benefits and commissions as a result of recent plant consolidations. Restructuring costs associated with the company's plant consolidations (included in extraordinary items) were $55,000.

Operating income increased to $4.2 million in 2Q16 from $3.5 million in 2Q15 for margins of 11.1% and 9.6%, respectively. Excluding the material overcharge settlement in 2Q16, operating income was $3.8 million for a margin of 10%. The company showed an effective income tax rate of 35%.

1H16 - Sales increased 3% to $72.4 million. Net income decreased to $3.8 million or $0.53 per share from $3.9 million or $0.55 per share. Excluding a $423,000 material overcharge settlement in 2Q16, net income was $3.5 million or $0.49 per share.

The increase in sales was primarily a result of increased sales to the medical and consumer markets partially offset by decreased sales to the electronics and aerospace & defense markets. Medical market sales (up 13% or $3.6 million to $32.4 million) benefitted from a new five-year contract with one of the company's larger customers in this market. The increase in sales to the consumer market was largely due to increased demand for molded fiber protective packaging. Aerospace & defense market sales suffered from continued cuts in government spending. The decrease in sales to the electronics market was primarily due to weak demand for protective packaging.

Gross margins decreased to 24.9% from 26.9% primarily due to increased material and labor costs as a result of recent plant consolidations and a one-time write-off of approximately $288,000 in obsolete tooling and inventory.

SG&A expenses decreased to $12.4 million from $12.8 million primarily due to lower salaries, benefits and commissions as a result of recent plant consolidations. Restructuring costs associated with the company's plant consolidations (included in extraordinary items) were $178,000.

Income Statement
(in thousands $)

	6mos16A	6mos15A
Net sales	72,406	70,476
Cost of sales	54,384	51,544
Gross profit	18,022	18,932
Extraordinary items	(249)	77
SG&A	12,374	12,800
Operating income	5,897	6,055
Interest exp, other inc and exp	26	(15)
Income before taxes	5,923	6,040
Income tax	2,113	2,114
Net Income / (Loss)	3,810	3,926
EPS	0.53	0.55
Shares Outstanding	7,263	7,203
Margin Analysis		
Gross margin	24.9%	26.9%
SG&A	17.1%	18.2%
Operating margin	8.1%	8.6%
Tax rate	35.7%	35.0%
Year / Year Growth		
Total Revenues	2.7%	
Net Income	(3.0)%	
EPS	(2.8)%	

Source: Company filings

Operating income decreased to $5.9 million in 1H16 from $6.1 million in 1H15 for margins of 8.1% and 8.6%, respectively. Excluding the material overcharge settlement in 1H16, operating income was $5.5 million for a margin of 7.6%. The company showed an effective income tax rate of 35.7%.

Liquidity

The company has a strong balance sheet. Total debt is $1.4 million, tangible equity is $100.7 million, and cash (approximately $3.74 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 earnings of $7.3 million and a $5.7 million increase in working capital resulted in $1.6 million cash provided by operations in the first six months of 2016. The increase in working capital was primarily due to increases in receivables and prepaid expenses partially offset by an increase in accounts payable. Cash provided by operations was insufficient to cover $4.4 million of capital expenditures resulting in a $2.8 million decrease in cash to $27 million as of June 30, 2016.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of June 30, 2016. 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, 2016.

UFPT has a $5 million 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was $1.4 million as of June 30, 2016. 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 26% of total revenues in 2015. 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 7.2 million shares outstanding and 5.8 million in the float, liquidity issues must be considered. Average daily volume has been approximately 46,000 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 $)

	2013A	2014A	2015A	6/16A	2016E	2017E
Cash and cash equivalents	37,303	34,052	29,804	27,007	37,142	49,298
Receivables	17,032	16,470	17,481	23,020	18,243	19,338
Inventories	11,048	12,893	14,202	13,884	14,954	15,167
Prepaid expenses	690	664	930	2,595	2,595	2,595
Refundable income taxes	1,537	3,192	1,186	480	1,200	1,200
Deferred income taxes	1,222	-	-	-	-	-
Total current assets	68,832	67,271	63,603	66,986	74,134	87,598
Net property, plant and equipment	25,507	34,843	46,555	48,325	47,865	49,051
Goodwill	7,322	7,322	7,322	7,322	7,322	7,322
Intangible assets	1,346	953	636	477	318	-
Other assets	2,013	2,159	1,834	1,869	1,869	1,869
Total assets	**105,020**	**112,548**	**119,950**	**124,979**	**131,508**	**145,840**
Current portion of long-term debt	976	993	1,011	1,020	870	-
Accounts payable	3,081	5,398	4,598	5,463	4,842	4,910
Accrued expenses	8,265	5,222	5,374	4,769	5,608	5,945
Total current liabilities	12,322	11,613	10,983	11,252	11,320	10,855
Long-term debt	2,867	1,873	859	345	-	-
Deferred income taxes	2,436	2,446	2,883	3,107	3,107	3,107
Other liabilities	1,805	1,624	1,653	1,765	1,868	1,868
Total liabilities	**19,430**	**17,556**	**16,378**	**16,469**	**16,295**	**15,830**
Total stockholders' equity	**85,590**	**94,992**	**103,572**	**108,510**	**115,213**	**130,010**
Total liabilities & stockholders' equity	**105,020**	**112,548**	**119,950**	**124,979**	**131,508**	**145,840**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2013A	2014A	2015A	2016E	2017E
Net sales	139,223	139,307	138,850	144,905	153,600
Cost of sales	98,574	102,427	101,397	106,768	108,288
Gross profit	40,649	36,880	37,453	38,137	45,312
Extraordinary items	11	1,472	1,731	(1,749)	-
SG&A	23,240	23,847	24,009	24,724	25,350
Operating income	17,398	11,561	11,713	15,162	19,962
Non-operating (expenses) income	(205)	204	27	46	40
Income before taxes	17,193	11,765	11,740	15,208	20,002
Income tax	5,917	4,206	4,147	5,363	7,001
Net Income / (Loss)	11,276	7,559	7,593	9,845	13,001
EPS	1.59	1.05	1.05	1.35	1.78
Shares Outstanding	7,105	7,175	7,219	7,282	7,300
Margin Analysis					
Gross margin	29.2%	26.5%	27.0%	26.3%	29.5%
SG&A	16.7%	17.1%	17.3%	17.1%	16.5%
Operating margin	12.5%	8.3%	8.4%	10.5%	13.0%
Pretax margin	12.3%	8.4%	8.5%	10.5%	13.0%
Tax rate	34.4%	35.8%	35.3%	35.3%	35.0%
Year / Year Growth					
Total Revenues	6.3%	0.1%	(0.3)%	4.4%	6.0%
Net Income	3.5%	(33.0)%	0.4%	29.7%	32.1%
EPS	2.4%	(33.6)%	(0.2)%	28.5%	31.7%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2015A - 2017E
(in thousands $)

	3/15A	6/15A	9/15A	12/15A	2015A	3/16A	6/16A	9/16E	12/16E	2016E	3/17E	6/17E	9/17E	12/17E	2017E
Net sales	33,977	36,499	34,441	33,933	138,850	34,503	37,902	37,000	35,500	144,905	36,600	40,200	39,200	37,600	153,600
Cost of sales	25,339	26,206	24,931	24,921	101,397	26,776	27,607	26,825	25,560	106,768	25,803	28,341	27,636	26,508	108,288
Gross profit	8,638	10,293	9,510	9,012	37,453	7,727	10,295	10,175	9,940	38,137	10,797	11,859	11,564	11,092	45,312
Extraordinary items	47	30	851	803	1,731	119	(368)	(1,500)	-	(1,749)	-	-	-	-	-
SG&A	6,024	6,776	5,604	5,605	24,009	5,904	6,470	6,300	6,050	24,724	6,050	6,650	6,450	6,200	25,350
Operating income	2,567	3,487	3,055	2,604	11,713	1,704	4,193	5,375	3,890	15,162	4,747	5,209	5,114	4,892	19,962
Non-operating (expenses) income	(24)	8	9	34	27	11	15	10	10	46	10	10	10	10	40
Income before taxes	2,543	3,495	3,064	2,638	11,740	1,715	4,208	5,385	3,900	15,208	4,757	5,219	5,124	4,902	20,002
Income tax	890	1,223	1,072	962	4,147	640	1,473	1,885	1,365	5,363	1,665	1,827	1,793	1,716	7,001
Net Income / (Loss)	1,653	2,272	1,992	1,676	7,593	1,075	2,735	3,500	2,535	9,845	3,092	3,392	3,331	3,186	13,001
EPS	0.23	0.32	0.28	0.23	1.05	0.15	0.38	0.48	0.35	1.35	0.42	0.46	0.46	0.44	1.78
Shares Outstanding	7,193	7,210	7,230	7,248	7,219	7,255	7,271	7,300	7,300	7,282	7,300	7,300	7,300	7,300	7,300
Margin Analysis															
Gross margin	25.4%	28.2%	27.6%	26.6%	27.0%	22.4%	27.2%	27.5%	28.0%	26.3%	29.5%	29.5%	29.5%	29.5%	29.5%
SG&A	17.7%	18.6%	16.3%	16.5%	17.3%	17.1%	17.1%	17.0%	17.0%	17.1%	16.5%	16.5%	16.5%	16.5%	16.5%
Operating margin	7.6%	9.6%	8.9%	7.7%	8.4%	4.9%	11.1%	14.5%	11.0%	10.5%	13.0%	13.0%	13.0%	13.0%	13.0%
Pretax margin	7.5%	9.6%	8.9%	7.8%	8.5%	5.0%	11.1%	14.6%	11.0%	10.5%	13.0%	13.0%	13.1%	13.0%	13.0%
Tax rate	35.0%	35.0%	35.0%	36.5%	35.3%	37.3%	35.0%	35.0%	35.0%	35.3%	35.0%	35.0%	35.0%	35.0%	35.0%
Year / Year Growth															
Total Revenues	(1.8)%	7.3%	(2.7)%	(3.8)%	(0.3)%	1.5%	3.8%	7.4%	4.6%	4.4%	6.1%	6.1%	5.9%	5.9%	6.0%
Net Income	(19.8)%	22.2%	(3.6)%	6.7%	0.4%	(35.0)%	20.4%	75.7%	51.3%	29.7%	187.6%	24.0%	(4.8)%	25.7%	32.1%
EPS	(20.3)%	21.4%	(4.2)%	5.9%	(0.2)%	(35.5)%	19.4%	74.0%	50.2%	28.5%	185.9%	23.5%	(4.8)%	25.7%	31.7%

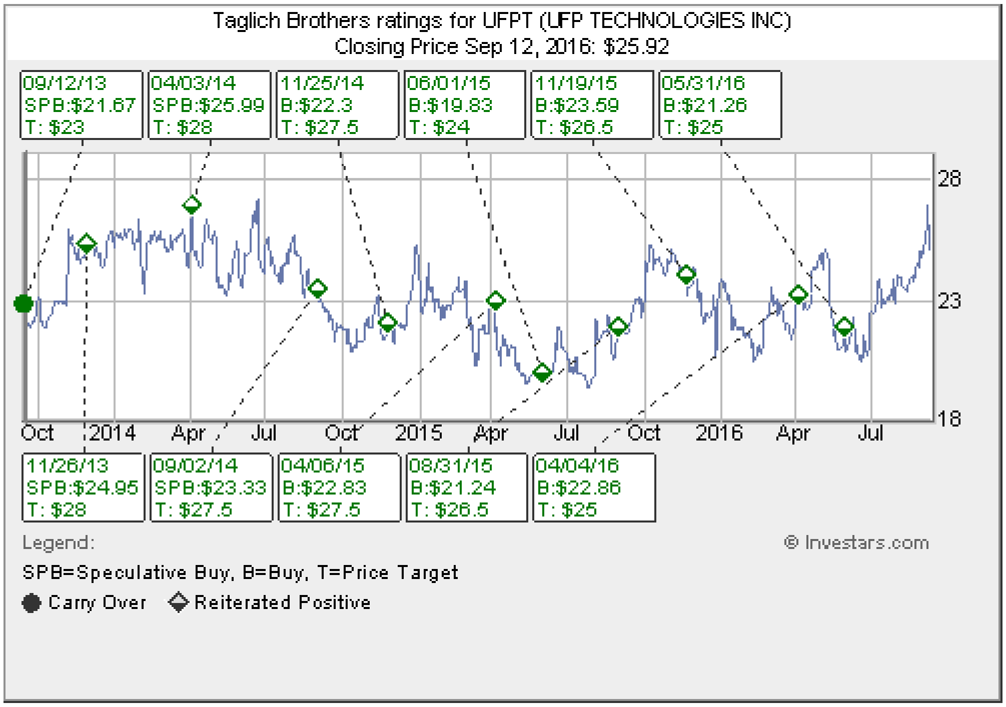
Source: Company filings and Taglich Brothers' estimates

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

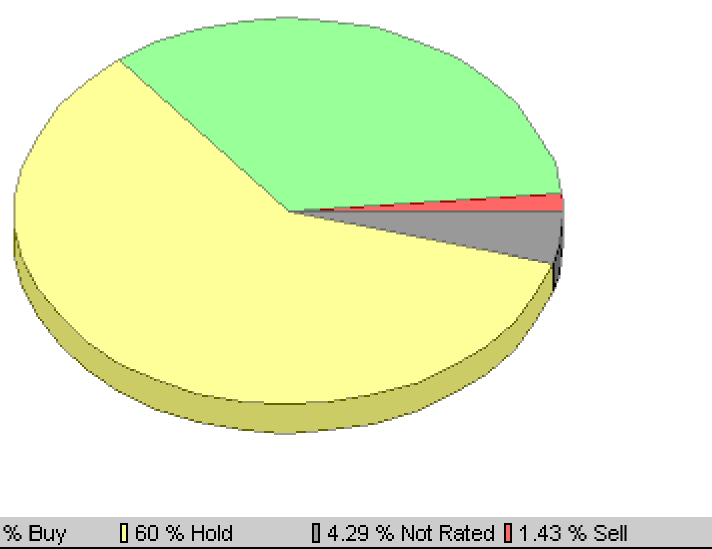
	2013A	2014A	2015A	6mos16A	2016E	2017E
Net income	11,276	7,559	7,593	3,810	9,845	13,001
Depreciation & amortization	4,084	4,376	4,846	2,749	5,008	5,132
(Gain) loss on disposal of property, plant and equipment	11	5	27	(4)	(4)	-
Share-based compensation	924	1,119	1,069	642	1,200	1,200
Excess tax benefit on share-based compensation	(818)	(1,219)	(356)	(126)	(356)	(356)
Deferred income taxes	740	1,232	437	224	224	200
Cash earnings	16,217	13,072	13,616	7,295	15,917	19,177
Changes in assets and liabilities						
Receivables	804	562	(1,011)	(5,539)	(762)	(1,095)
Inventories	(1,353)	(1,845)	(1,309)	318	(752)	(213)
Prepaid expenses	(36)	26	(266)	(1,665)	(1,665)	-
Refundable income taxes	994	(436)	2,362	832	342	224
Accounts payable	(1,007)	2,317	(800)	865	244	-
Accrued expenses and other	1,272	(2,243)	152	(605)	234	337
Retirement and other liabilities	(417)	(181)	29	112	215	-
Other assets	(368)	(146)	325	(35)	(35)	-
(Increase) decrease in working capital	(111)	(1,946)	(518)	(5,717)	(2,180)	(747)
Net Cash Provided by Operations	**16,106**	**11,126**	**13,098**	**1,578**	**13,738**	**18,430**
Additions to property, plant and equipment	(5,830)	(13,436)	(16,321)	(4,360)	(6,000)	(6,000)
Redemption of cash value life insurance	37	-	-	-	-	-
Proceeds from sale of property, plant and equipment	1	112	53	4	4	-
Acquisitions	(600)	-	-	-	-	-
Net Cash Used in Investing	**(6,392)**	**(13,324)**	**(16,268)**	**(4,356)**	**(5,996)**	**(6,000)**
Proceeds from long-term borrowings	580	-	-	-	-	-
Repurchases of common stock	-	-	(587)	-	-	-
Tax benefit from exercise of non-qualified stock options	818	1,219	356	126	356	356
Proceeds from exercise of stock options	191	336	358	449	449	449
Payment of statutory withholdings for stock options exercised	(879)	(831)	(209)	(89)	(209)	(209)
Principal repayments of long-term debt	(6,601)	(977)	(996)	(505)	(1,000)	(870)
Payment of contingent note payable	-	(800)	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
Net Cash Provided by (Used in) Financing	**(5,891)**	**(1,053)**	**(1,078)**	**(19)**	**(404)**	**(274)**
Net Change in Cash	**3,823**	**(3,251)**	**(4,248)**	**(2,797)**	**7,338**	**12,156**
Cash - Beginning of Period	**33,480**	**37,303**	**34,052**	**29,804**	**29,804**	**37,142**
Cash - End of Period	**37,303**	**34,052**	**29,804**	**27,007**	**37,142**	**49,298**

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	7
Hold		
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.