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Research Report- Update

Speculative Buy

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UFP Technologies, Inc.

November 6, 2000

Ticker: UFPT--\$2.13 (NASDAQ)

	<u>FY1997</u>	<u>FY1998</u>	<u>FY1999A</u>	<u>FY2000E</u>	<u>FY2001E</u>
Revenues (millions)	\$45.5	\$47.2	\$58.8	\$75.4	\$80.3
Earnings per share	\$0.27	\$0.34	\$0.35	\$0.23	\$0.43
P/E Ratio	---	---	---	9.2x	4.9x

52-Week Range	4.50—1.75	ROE (FY2000E)	6.0%
Shares Outstanding	4.4 million	Fiscal Year Ends	December
Approximate Float (shares)	1.6 million	Sales per share (FY2000E)	\$17.11
Institutional Holdings	14.0%	Price/Sales (FY2000E)	0.12x
Insider Holdings	41.5%	Current Price/Hard Book	1.04x

UFP Technologies is a leading U.S. manufacturer of custom-designed cushion foam packaging, specialty foam packaging products and engineered specialty foam and laminated products. The company is the North American leader in 100% recycled molded-fiber packaging products that offer an environmentally responsible alternative to plasti-based packaging products in the high-volume consumer packaging market.

Key investment considerations:

- ***UFP Technologies announced third quarter revenues of \$18.9 million versus \$14.4 million last year, an increase of 31%. Net income in the quarter was \$220 thousand, or \$0.05 per share, down from last year's Q3 of \$0.06. Bottom-line results were negatively affected by the integration of Simco's operations and a multiyear contract in high margin molded fiber packaging that came to an early end in the second quarter. EBITDA in the quarter grew 26%.***
- ***The integration of Simco is the dominant factor concerning operations this year. During the quarter, the company exited one of Simco's unprofitable non-core business segments and is improving profitability on its existing contracts. UFPT's integration efforts are continuing with plans to consolidate two facilities into a single, more efficient location that will reduce costs. We see the move completed in the fourth quarter.***
- ***With projected earnings momentum carrying through fiscal 2001, we look for an expansion of the company's current P/E ratio. The shares are currently trading at multiples of P/E and Total Enterprise Value to EBITDA of 4.5x and 3.2x, respectively, of our projections for fiscal 2001. We rate the shares of UFPT a speculative buy. Our nine to twelve month price target is \$4.00 to \$5.00 per share.***

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Recent Results

UFP Technologies announced third quarter revenues of \$18.9 million versus \$14.4 million last year, an increase of 31%. Net income in the quarter was \$220 thousand, or \$0.05 per share, down from last year's Q3 of \$0.06 and our estimates of \$0.08 per share. EBITDA in the quarter grew 26%, to an estimated \$1.5 million compared to \$1.2 million in Q3 last year.

The increase in the top-line is attributable to the Simco acquisition made in January and new sales in specialty foam. We estimate that specialty foam presently accounts for approximately 55% to 57% of total revenues, versus 43% overall last year. Bottom-line results were negatively affected by a couple factors. First, the integration of Simco's operations is still under way, and July is traditionally a slow time for the industry. Second, a multiyear contract in high margin molded fiber packaging that came to an early end in the second quarter was not yet replaced.

For the nine months ended September, UFPT reported revenues of \$56.6 million and earnings per share of \$0.17, versus revenues of \$42.8 million and \$0.21, respectively, for the same period in 1999. EBITDA was an estimated \$4.6 million in the nine months, up from \$3.8 million.

Key Points

The integration of Simco is the dominant factor concerning operations this year. While we viewed this acquisition from January as a key strategic move, we were not projecting any accretive benefits to earnings for the first year. Management has stated that Simco has been experiencing steady improvements in operating results this year. During the quarter, the company exited one of Simco's unprofitable non-core business segments and is improving profitability on its existing contracts. UFPT's integration efforts are continuing with plans to consolidate two facilities into a single, more efficient location that will reduce costs. This is expected to be completed in the fourth quarter.

Recent new contracts and the Simco acquisition have positioned UFPT in the large automotive specialty foam market. The company now possesses increased capabilities, expertise and the critical mass needed to take advantage of opportunities in the market. UFPT's technological capabilities in specialty foam make the company a niche player in the automotive supply industry, where it can carve out additional business. We see the company being less susceptible to a potential economic downturn for automotive suppliers at this point because of its niche player status.

The company continues a strategy of penetrating new market segments and expanding product capabilities to internally grow environmentally friendly molded fiber packaging. Although just part of packaging revenues, increased capabilities of molded fiber have led to steady growth entering this year. Molded fiber products carry strong gross margins, as raw material cost is low.

Projections

We are projecting fourth quarter revenues of \$18.8 million and earnings per share of \$0.07, with full year results for 2000 of \$73.4 million, \$0.23 per share and EBITDA of \$6.2 million. Q4 will still be affected by the softness in molded fiber and the continuing transition at Simco. The company's pipeline and backlog continues to grow for both segments and results should start accruing in the beginning of next year.

For fiscal 2001, we see revenues of \$80.3 million, with earnings growing to \$0.43 per share. With the Simco acquisition UFPT has now built critical mass and possesses good operating and earnings per share leverage. Our assumptions include single digit top-line growth of both of the company's segments. We see EBITDA growth of 23% in 2001, to \$7.6 million.

Outlook

The shares of UFPT are currently trading at low multiples of earnings and EBITDA. This reflects several factors, including lack of earnings per share growth in the current fiscal year and automotive suppliers' valuations at a cyclical low. Other considerations are a small trading float and low trading volume in its shares. UFPT's main operational risk is the continuing smooth integration of Simco's operations, its improving results and the development of packaging's pipeline into new jobs. However, given the company's consistently strong cash flow, we feel downside risk is limited.

With projected earnings momentum carrying through fiscal 2001, we look for an expansion of the company's current P/E ratio. The shares are currently trading at multiples of P/E and Total Enterprise Value to EBITDA of 4.5x and 3.2x, respectively, of our projections for fiscal 2001. We rate the shares of UFPT a speculative buy. Our nine to twelve month price target is \$4.00 to \$5.00 per share.

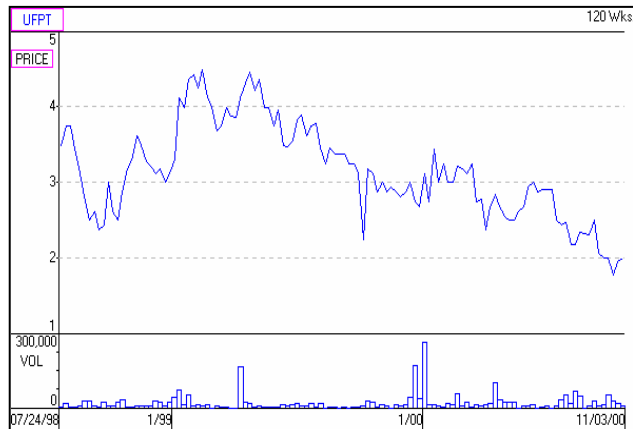


Chart Courtesy Quotron Systems.

UFP Technologies, Inc.
Yearly Income Statement Model
(In Thousands)

	<u>FY1997</u>	<u>F1998</u>	<u>F1999A</u>	<u>F2000E</u>	<u>F2001E</u>
Total Revenues	\$ 45,452	\$ 47,220	\$ 58,802	\$ 75,398	\$ 80,298
Costs of Goods Sold	<u>33,200</u>	<u>34,140</u>	<u>43,939</u>	<u>57,563</u>	<u>60,865</u>
Gross Profit	12,252	13,080	14,863	17,835	19,433
<i>Gross Margins</i>	26.96%	27.70%	25.28%	23.65%	24.20%
S,G&A	<u>9,318</u>	<u>9,906</u>	<u>11,562</u>	<u>14,666</u>	<u>14,950</u>
Operating Income	2,934	3,174	3,301	3,169	4,483
<i>Operating Margin</i>	6.46%	6.72%	5.61%	4.20%	5.58%
Interest Expense-net	630	447	640	1,304	1,200
Other-net	<u>-</u>	<u>(60)</u>	<u>(169)</u>	<u>-</u>	<u>-</u>
Pre-Tax Income	2,304	2,787	2,830	1,865	3,283
<i>Pre-Tax Margins</i>	5.07%	5.90%	4.81%	2.47%	4.09%
Taxes (Benefit)	<u>995</u>	<u>1,141</u>	<u>1,136</u>	<u>838</u>	<u>1,409</u>
<i>Tax Rate</i>	43.19%	40.94%	40.14%	44.97%	42.92%
Net Income	<u>\$ 1,309</u>	<u>\$ 1,646</u>	<u>\$ 1,694</u>	<u>\$ 1,026</u>	<u>\$ 1,874</u>
EPS-fully diluted	<u>\$ 0.27</u>	<u>\$ 0.34</u>	<u>\$ 0.35</u>	<u>\$ 0.23</u>	<u>\$ 0.43</u>
Avg Shares Out-fully diluted	<u>4,863</u>	<u>4,819</u>	<u>4,896</u>	<u>4,400</u>	<u>4,400</u>
 <u>Percent of Revenue</u>					
Costs of Goods Sold	73.04%	72.30%	74.72%	76.35%	75.80%
SG&A	20.50%	20.98%	19.66%	19.45%	18.62%
Net Margin	2.88%	3.49%	2.88%	1.36%	2.33%
 <u>Year / Year Growth</u>					
Total Revenues	15.48%	3.89%	24.53%	28.22%	6.50%
Operating Income	40.11%	8.18%	4.00%	-4.01%	41.48%
Pre-Tax Income	38.13%	20.96%	1.54%	-34.11%	76.06%
Net Income	3.72%	25.74%	2.92%	-39.42%	82.59%
Total Debt-net of Cash				\$ 15,589	\$ 12,941
Market Capitalization				<u>9,350</u>	<u>9,456</u>
Total Enterprise Value (TEV)				<u>\$ 24,939</u>	<u>\$ 22,398</u>
EBITDA	<u>\$ 4,736</u>	<u>\$ 5,074</u>	<u>\$ 5,601</u>	<u>\$ 6,199</u>	<u>\$ 7,483</u>
<i>Year / Year Growth</i>	31.8%	7.1%	10.4%	10.7%	20.7%
TEV / EBITDA Multiple				4.02	2.99
Share Price @ 5.0X TEV / EBITDA				\$3.50	\$5.50
Share Price @ 6.0X TEV / EBITDA				\$4.91	\$7.18
Share Price @ 7.0X TEV / EBITDA				\$6.32	\$8.86
Share Price @ 8.0X Earnings				\$1.87	\$3.37
Share Price @ 10.0X Earnings				\$2.33	\$4.21
Share Price @ 12.0X Earnings				\$2.80	\$5.05

UFP Technologies, Inc.
Fiscal 2000 Income Statement Model
(In Thousands)

	<u>Q1A</u>	<u>Q2A</u>	<u>Q3A</u>	<u>Q4E</u>	<u>F2000E</u>
Total Revenues	\$ 18,284	\$ 19,416	\$ 18,898	\$ 18,800	\$ 75,398
Costs of Goods Sold	<u>13,981</u>	<u>14,823</u>	<u>14,478</u>	<u>14,281</u>	<u>57,563</u>
Gross Profit	4,303	4,593	4,420	4,519	17,835
<i>Gross Margins</i>	23.53%	23.66%	23.39%	24.04%	23.65%
S,G&A	<u>3,613</u>	<u>3,715</u>	<u>3,688</u>	<u>3,650</u>	<u>14,666</u>
Operating Income	690	878	732	869	3,169
<i>Operating Margin</i>	3.77%	4.52%	3.87%	4.62%	4.20%
Interest Expense-net	294	354	331	325	1,304
Other-net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pre-Tax Income	396	524	401	544	1,865
<i>Pre-Tax Margins</i>	2.17%	2.70%	2.12%	2.89%	2.47%
Taxes (Benefit)	<u>178</u>	<u>236</u>	<u>181</u>	<u>243</u>	<u>838</u>
<i>Tax Rate</i>	44.95%	45.04%	45.14%	44.78%	44.97%
Net Income	<u>\$ 218</u>	<u>\$ 288</u>	<u>\$ 220</u>	<u>\$ 300</u>	<u>\$ 1,026</u>
EPS-fully diluted	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.23</u>
Avg Shares Out-fully diluted	<u>4,390</u>	<u>4,386</u>	<u>4,394</u>	<u>4,400</u>	<u>4,400</u>
 <u>Percent of Revenue</u>					
Costs of Goods Sold	76.47%	76.34%	76.61%	75.96%	76.35%
SG&A	19.76%	19.13%	19.52%	19.41%	19.45%
Net Margin	1.19%	1.48%	1.16%	1.60%	1.36%
 <u>Year / Year Growth</u>					
Total Revenues	35.68%	30.36%	30.87%	17.56%	28.22%
Operating Income	11.83%	-4.88%	10.24%	-20.82%	-4.01%
Pre-Tax Income	-19.84%	-28.51%	-19.96%	-50.67%	-34.11%
Net Income	-25.09%	-34.69%	-26.91%	-54.59%	-39.42%

UFP Technologies, Inc.
Fiscal 2001 Income Statement Model
(In Thousands)

	<u>Q1E</u>	<u>Q2E</u>	<u>Q3E</u>	<u>Q4E</u>	<u>F2001E</u>
Total Revenues	\$ 19,693	\$ 20,617	\$ 20,216	\$ 19,772	\$ 80,298
Costs of Goods Sold	<u>14,911</u>	<u>15,568</u>	<u>15,416</u>	<u>14,970</u>	<u>60,865</u>
Gross Profit	4,782	5,049	4,800	4,802	19,433
<i>Gross Margins</i>	24.28%	24.49%	23.74%	24.29%	24.20%
S,G&A	<u>3,700</u>	<u>3,750</u>	<u>3,700</u>	<u>3,800</u>	<u>14,950</u>
Operating Income	1,082	1,299	1,100	1,002	4,483
<i>Operating Margin</i>	5.50%	6.30%	5.44%	5.07%	5.58%
Interest Expense-net	300	300	300	300	1,200
Other-net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pre-Tax Income	782	999	800	702	3,283
<i>Pre-Tax Margins</i>	3.97%	4.85%	3.96%	3.55%	4.09%
Taxes (Benefit)	<u>337</u>	<u>424</u>	<u>344</u>	<u>305</u>	<u>1,409</u>
<i>Tax Rate</i>	43.07%	42.40%	43.00%	43.42%	42.92%
Net Income	<u>\$ 445</u>	<u>\$ 575</u>	<u>\$ 456</u>	<u>\$ 397</u>	<u>\$ 1,874</u>
EPS-fully diluted	<u>\$ 0.10</u>	<u>\$ 0.13</u>	<u>\$ 0.10</u>	<u>\$ 0.09</u>	<u>\$ 0.43</u>
Avg Shares Out-fully diluted	<u>4,400</u>	<u>4,400</u>	<u>4,400</u>	<u>4,400</u>	<u>4,400</u>
 <u>Percent of Revenue</u>					
Costs of Goods Sold	75.72%	75.51%	76.26%	75.71%	75.80%
SG&A	18.79%	18.19%	18.30%	19.22%	18.62%
Net Margin	2.26%	2.79%	2.26%	2.01%	2.33%
 <u>Year / Year Growth</u>					
Total Revenues	7.71%	6.19%	6.97%	5.17%	6.50%
Operating Income	56.84%	47.95%	50.27%	15.32%	41.48%
Pre-Tax Income	97.52%	90.65%	99.50%	29.07%	76.06%
Net Income	104.27%	99.79%	107.27%	32.26%	82.59%