

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

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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: Speculative Buy

John Nobile

UFPT \$1.96 — (NASDAQ SC)

November 7, 2003

	FY (2001)*	FY (2002)	FY (2003)E	FY (2004)E
Revenues (millions)	\$61.6	\$61.2	\$62.2	\$68.8
Earnings per share (diluted)	\$(0.72)	\$(0.05)	\$(0.06)	\$0.26

52week range	\$0.65 – \$2.40	Fiscal year ends:	December
Shares outstanding (millions)	4.6	Revenue per share (TTM)	\$13.28
Trading float (millions)	2.0	Price/Sales (TTM)	0.1X
Insider + 5% ownership	56%	Price/Sales (2004)E	0.1X
Est. tangible book value/share	\$1.62	Price/Earnings (TTM)	NA
Price/est. tangible book	1.2X	Price/Earnings (2004)E	7.5X

*Includes a \$1 million restructuring charge.

UFP Technologies is a designer and manufacturer of a broad range of high performance cushion packaging and molded fiber products and specialty foam and plastic products. These products are custom designed and fabricated or molded to provide protection for fragile and valuable items, and are sold primarily to original equipment manufacturers in the computer, electronics, automotive, medical/pharmaceutical and industrial markets. (www.ufpt.com)

Key investment considerations:

We are reiterating our Speculative Buy rating for shares of UFP Technologies (UFPT) and setting a twelve-month price target of \$3.50 per share. Our price target has increased since our last report primarily due to a valuation on increased estimates.

For the third quarter ended September 30, 2003, UFP Technologies' net sales increased 5% to \$16.1 million from \$15.3 million in the same period in 2002. Net income was \$41,000 or \$0.01 per diluted share in the third quarter of fiscal 2003 versus net income of \$4,000 or \$0.00 per diluted share in the same period in 2002.

UFPT reported its third straight quarter of consecutive sales growth and we believe that an improving economy combined with a positive outlook for sales in the computer/electronics industry should help the Company to continue its sequential revenue growth.

Also, the \$77 million contract that was announced late last year should provide a nice boost to component sales in 2004.

For fiscal 2003, we estimate UFPT will generate revenue of approximately \$62.2 million and the Company will report a net loss of \$0.3 million or \$(0.06) per share. For fiscal 2004, we estimate UFPT's sales will increase by 11% to \$68.8 million and the Company will report net income of \$1.2 million or \$0.26 per diluted share.

**Please view our disclaimer located on page 8 of this report.*

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Business

The Company operates in two segments: Packaging Products and Component Products.

UFP Technologies' packaging products are used to contain, display and/or protect manufactured goods during shipment, handling, storage, marketing and use. The interior cushion packaging market is characterized by three primary sectors: (1) custom fabricated or molded products for low volume, high fragility products; (2) molded or die-cut products for high volume, industrial and consumer goods; and (3) loose fill and commodity packaging materials for products which do not require custom-designed packaging. Examples of the Company's packaging products include end-cap packs for computers, corner blocks for telecommunications consoles, anti-static foam packs for printed circuit boards, die-cut inserts for attaché cases and plastic trays for medical devices and components.

The Company's component products segment features specialty foam and plastic products that are sold primarily to customers in the automotive, sporting goods, medical, beauty, leisure and footwear industries. These products include components for automobiles and medical diagnostic equipment, abrasive nail files and anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

Recent Financial Results

For the third quarter ended September 30, 2003, versus the same period in 2002:

- Net sales increased 5% to \$16.1 million from \$15.3 million.
- Gross margins decreased to 19.6% from 21.4%.
- SG&A expenses decreased to \$2.9 million from \$3.1 million.
- Net income was \$41,000 or \$0.01 per diluted share versus net income of \$4,000 or \$0.00 per diluted share.

In comparison, Taglich Brothers' estimates called for net sales of \$15.5 million and a net loss of \$47,000 or \$(0.01) per share.

Balance Sheet as of September 30, 2003

We estimate cash was approximately \$0.1 million. The Company has working capital of \$2.3 million, an estimated tangible book value of \$1.62 per share and a long-term debt-to-equity ratio of 0.6X. We estimate cash provided by operations for the third quarter of fiscal 2003 was approximately \$0.6 million. UFPT obtained a new credit facility in February 2003 that expires in February 2006. We estimate the Company has an available balance under this credit facility of approximately \$3.0 million. We believe that UFPT's current line of credit and future expected cash flows from operations will be sufficient to fund operations for the next twelve months.

Discussion and Outlook

Some key points from Management in the third quarter earnings release were:

- UFP Technologies is continuing to reduce costs and improve efficiency while investing for long-term growth;
- The previously announced \$77 million automotive program remains on track to launch in late 2004; and
- The recent addition of another industry veteran to the sales force making this the third significant sales hire this year.

Approximately one-half of UFPT's sales are generated from its components products segment and one-half from its packaging products segment. A significant portion of the Company's packaging products sales are to manufacturers of computer peripherals and other consumer products while a significant portion of component products sales are to the automotive industry. Because of this, UFPT's sales have a direct correlation with the level of sales in the automotive and computer/electronics Industry.

UFPT's third quarter results showed a third straight quarter of revenue gains on a sequential basis. We believe that an improving economy combined with a positive outlook for sales in the computer/electronics industry should help the Company to continue its sequential revenue growth. Also, the \$77 million contract that was announced late last year should provide a nice boost to component sales in 2004. The eight-year contract calls for UFPT to provide molded door panels to a large Tier-1 automotive supplier. Manufacturing is expected to begin on this new contract in late 2004, with full rate production estimated for 2006.

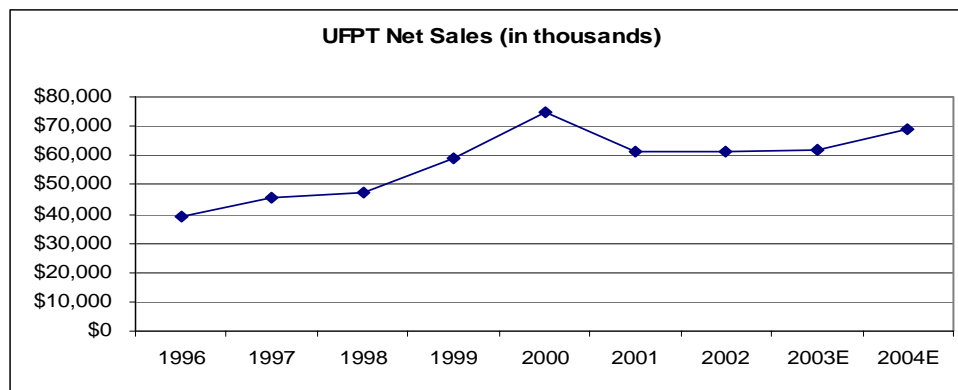
We are going to take a look at recent projections for IT spending on hardware in 2003 and 2004 in order to get a clearer picture of where the computer/electronics industry is heading. According to the research firm IDC, worldwide IT spending on hardware is projected to decrease by 0.5% in 2003. However, IDC projects worldwide IT spending on hardware to recover in 2004 with growth of 4-6%. We believe this data suggests that the packaging segment of UFPT's business will see relatively flat growth in 2003 and increased growth in 2004.

The economic environment is also expected to give a boost to the markets that UFPT sells to. In October 2003, the Commerce Department reported that U.S. GDP growth in the third quarter exceeded expectations and surged at a 7.2 percent annual rate. This marks the strongest advance in U.S. GDP growth in more than 19 years. The report noted that business spending, which has been lacking even as the economy climbed out of a recession, rose 11.1 percent in the third quarter, the steepest climb since the first quarter of 2000 and the second straight quarterly advance.

The recent release of U.S. leading economic indicators suggests that the economy will most likely continue its upward momentum. Although the U.S. leading index declined by 0.2 percent in September 2003, the leading index had increased for four consecutive months before September's decline and is still up 2.3 percent from its recent low in March 2003.

We believe the above information suggests that UFP Technology's sales should remain relatively flat in fiscal 2003 but should start to grow in 2004.

For fiscal 2003, we estimate UFPT will generate revenue of approximately \$62.2 million and the Company will report a net loss of \$0.3 million or \$(0.06) per share. For fiscal 2004, we estimate UFPT's sales will increase by 11% to \$68.8 million and the Company will report net income of \$1.2 million or \$0.26 per diluted share. We have increased our estimates moderately since our last report primarily due to the better than expected results in the most recent quarter.



Source: UFPT reports and Taglich Brothers' estimates

Risks

Cash concerns

Although we believe that the Company will have adequate resources to fund operations for the next twelve months, future cash flows may be less than we anticipate due to depressed market conditions. If market conditions remain at weak levels, we believe UFP Technologies will need to secure additional financing in order to maintain its current level of operations. As there can be no assurance of the Company's success in obtaining additional capital, shares of UFPT should only be purchased by those who are comfortable taking on above average risk.

Competition

The packaging and specialty foam products industry is highly competitive. The Company's foam and fiber packaging products compete against other alternative products made from materials such as expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles and foam-in-place urethane. UFP Technologies also faces competition in the specialty foam products area from smaller companies that typically concentrate on production for specific industries.

IT spending forecasts

Although recent forecasts support an increase in IT spending for 2004, there can be no assurance that this will actually happen. Should IT spending remain at depressed levels, the operating results of UFP Technologies are likely to be adversely affected.

Liquidity

With only 4.6 million shares outstanding and 2.0 million in the float, liquidity issues must be considered. Average daily volume is approximately 3,000 shares and there are many days when the stock does not trade at all. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

Miscellaneous risks

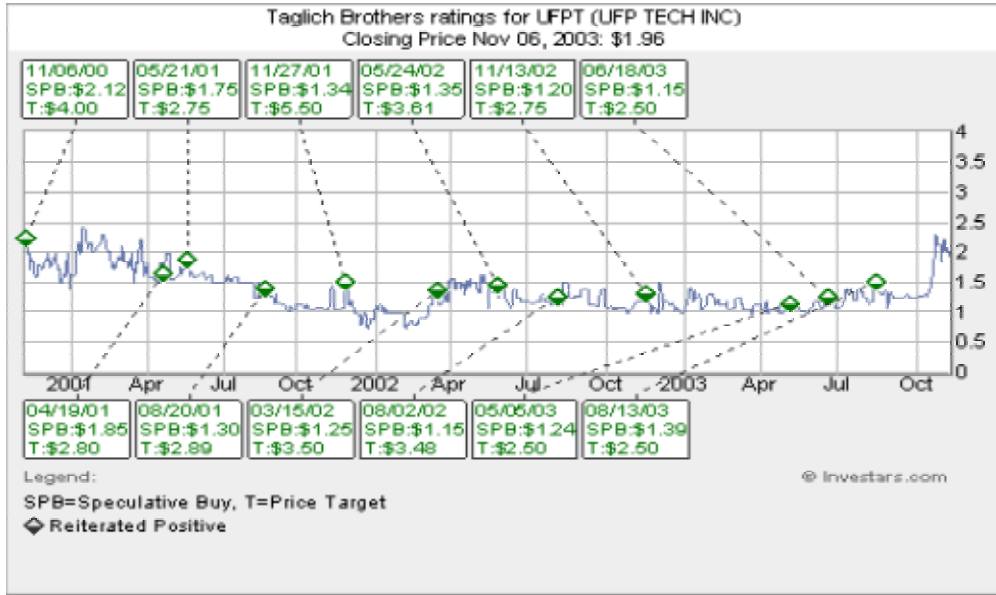
The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Conclusion

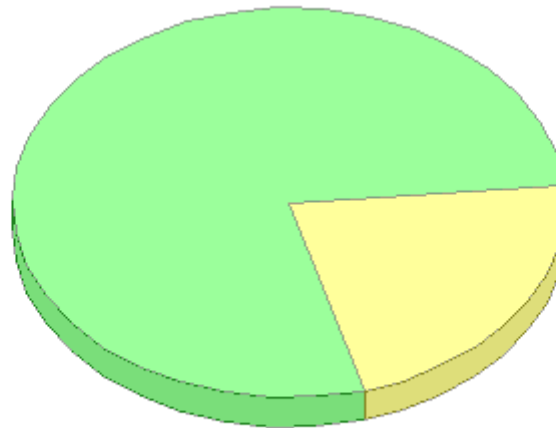
We are reiterating our **Speculative Buy** rating for shares of UFP Technologies (UFPT). UFPT reported its third straight quarter of consecutive sales growth and we believe that an improving economy combined with a positive outlook for sales in the computer/electronics industry should help the Company to continue its sequential revenue growth. Also, the \$77 million contract that was announced late last year should provide a nice boost to component sales in 2004.

For fiscal 2003, we estimate UFPT will generate revenue of approximately \$62.2 million and the Company will report a net loss of \$0.3 million or \$(0.06) per share. For fiscal 2004, we estimate UFPT's sales will increase by 11% to \$68.8 million and the Company will report net income of \$1.2 million or \$0.26 per diluted share.

UFPT continues to trade at a large discount to the industry (containers and packaging) averages. The price to sales multiple for shares of UFPT is currently 0.1X vs. 1.0X for the industry. UFPT's price to book multiple is currently 0.7X vs. 4.1X for the industry. We believe that a continual improvement of the Company's operating results should help to firm UFPT's multiples in regard to the industry. The industry is currently trading at approximately 19X TTM earnings. As a conservative valuation, we are applying a 30% discount to the industry average which gives us a price to earnings multiple of approximately 13X for shares of UFPT. Applying a multiple of 13X to our forecasted earnings of \$0.26 per share for fiscal 2004, we arrive at a **twelve-month price target of approximately \$3.50 per share.**



Taglich Brothers' Current Ratings Distribution



78 % Buy | 22 % Hold

Meaning of Ratings

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

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.

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research. As of the date of this report, Michael Taglich owns 5,000 shares of UFPT common stock. All research issued by Taglich Brothers, Inc. is based on public information. 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 with in the last three years. Since February 2000, the company pays a monthly monetary fee of \$1,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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.

UFP Technologies, Inc.

Consolidated Balance Sheets
(in thousands)

	<u>September 30, 2003</u>	<u>December 31, 2002</u>
Assets		
Current assets	\$ 17,034	\$ 15,122
Net property, plant and equipment	11,229	11,206
Other assets	<u>8,851</u>	<u>9,055</u>
Total Assets	<u>\$ 37,114</u>	<u>\$ 35,383</u>
Liabilities & stockholders' equity		
Current liabilities	\$ 14,709	\$ 13,582
Long-term debt	7,736	6,851
Other liabilities	<u>885</u>	<u>900</u>
Total liabilities	<u>23,330</u>	<u>21,333</u>
Total stockholder's equity	<u>13,784</u>	<u>14,050</u>
Total liabilities & stockholder's equity	<u>\$ 37,114</u>	<u>\$ 35,383</u>

UFP Technologies, Inc.

Annual Income Statements for the Years Ended
(in thousands)

	<u>FY(12/00)</u>	<u>FY(12/01)</u>	<u>FY(12/02)</u>	<u>FY(12/03)E</u>	<u>FY(12/04)E</u>
Net sales	\$ 74,491	\$ 61,574	\$ 61,189	\$ 62,154	\$ 68,750
Cost of sales	<u>56,870</u>	<u>50,649</u>	<u>49,084</u>	<u>50,621</u>	<u>53,700</u>
Gross profit	17,621	10,925	12,105	11,533	15,050
<i>Gross Margin</i>	23.66%	17.74%	19.78%	18.56%	21.89%
Restructuring charge	-	1,016	-	-	-
SG&A	<u>14,236</u>	<u>13,649</u>	<u>11,639</u>	<u>11,182</u>	<u>12,300</u>
Operating income	3,385	(3,740)	466	351	2,750
<i>Operating Margin</i>	4.54%	-6.07%	0.76%	0.56%	4.00%
Interest expense, other income and expenses	<u>(1,383)</u>	<u>(1,014)</u>	<u>(843)</u>	<u>(760)</u>	<u>(800)</u>
Income before taxes	2,002	(4,754)	(377)	(409)	1,950
Income tax	<u>921</u>	<u>(1,711)</u>	<u>(143)</u>	<u>(130)</u>	<u>741</u>
<i>Tax rate</i>	46.00%	35.99%	37.93%	31.78%	38.00%
Net Income / (Loss)	<u>\$ 1,081</u>	<u>\$ (3,043)</u>	<u>\$ (234)</u>	<u>\$ (279)</u>	<u>\$ 1,209</u>
Basic EPS	<u>\$ 0.25</u>	<u>\$ (0.72)</u>	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>	<u>\$ 0.26</u>
Diluted EPS	<u>\$ 0.25</u>	<u>\$ (0.72)</u>	<u>\$ (0.05)</u>	<u>\$ (0.06)</u>	<u>\$ 0.26</u>
Basic Shares Outstanding	4,374	4,248	4,343	4,556	4,700
Diluted Shares Outstanding	4,386	4,248	4,343	4,556	4,700
<u>Percent of Revenue</u>					
Cost of goods sold	76.34%	82.26%	80.22%	81.44%	78.11%
SG&A	19.11%	22.17%	19.02%	17.99%	17.89%
<u>Year / Year Growth</u>					
Total Revenues	26.68%	-17.34%	-0.63%	1.58%	10.61%
Net Income	-36.19%	NA	NA	NA	533.33%
EPS	-28.77%	NA	NA	NA	520.06%

UFP Technologies, Inc.

Quarterly Income Statement for the Year Ended 2002
(in thousands)

	<u>Q1(3/02)</u>	<u>Q2(6/02)</u>	<u>Q3(9/02)</u>	<u>Q4(12/02)</u>	<u>FY(12/02)</u>
Net sales	\$ 15,531	\$ 16,648	\$ 15,283	\$ 13,727	\$ 61,189
Cost of sales	<u>12,659</u>	<u>13,156</u>	<u>12,017</u>	<u>11,252</u>	<u>49,084</u>
Gross profit	2,872	3,492	3,266	2,475	12,105
<i>Gross Margin</i>	18.49%	20.98%	21.37%	18.03%	19.78%
SG&A	<u>3,154</u>	<u>3,135</u>	<u>3,061</u>	<u>2,288</u>	<u>11,639</u>
Operating income	(282)	357	205	187	466
<i>Operating Margin</i>	-1.82%	2.14%	1.34%	1.36%	0.76%
Interest expense	(227)	(238)	(199)	(180)	(843)
Other income (expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before taxes	(509)	119	6	7	(377)
Income tax	<u>(193)</u>	<u>45</u>	<u>2</u>	<u>3</u>	<u>(143)</u>
<i>Tax rate</i>	37.92%	37.82%	33.33%	42.86%	37.93%
Net Income / (Loss)	<u>\$ (316)</u>	<u>\$ 74</u>	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ (234)</u>
Basic EPS	<u>\$ (0.07)</u>	<u>\$ 0.02</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.05)</u>
Diluted EPS	<u>\$ (0.07)</u>	<u>\$ 0.02</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>	<u>\$ (0.05)</u>
Basic Shares Outstanding	4,302	4,400	4,410	4,365	4,343
Diluted Shares Outstanding	4,302	4,400	4,410	4,365	4,343
<u>Percent of Revenue</u>					
Cost of goods sold	81.51%	79.02%	78.63%	81.97%	80.22%
SG&A	20.31%	18.83%	20.03%	16.67%	19.02%
<u>Year / Year Growth</u>					
Total Revenues	-8.46%	7.54%	9.67%	-9.64%	-0.63%
Net Income	NA	127.51%	100.42%	100.27%	NA
EPS	NA	133.33%	100.00%	100.26%	NA

Quarterly Income Statement for the Year Ending 2003
(in thousands)

	<u>Q1(3/03)</u>	<u>Q2(6/03)</u>	<u>Q3(9/03)</u>	<u>Q4(12/03)E</u>	<u>FY(12/03)E</u>
Net sales	\$ 14,245	\$ 15,353	\$ 16,056	\$ 16,500	\$ 62,154
Cost of sales	<u>11,985</u>	<u>12,614</u>	<u>12,904</u>	<u>13,118</u>	<u>50,621</u>
Gross profit	2,260	2,739	3,152	3,383	11,534
<i>Gross Margin</i>	15.87%	17.84%	19.63%	20.50%	18.56%
SG&A	<u>2,686</u>	<u>2,640</u>	<u>2,906</u>	<u>2,950</u>	<u>11,182</u>
Operating income	(426)	99	246	433	352
<i>Operating Margin</i>	-2.99%	0.64%	1.53%	2.62%	0.57%
Interest expense, other income & expenses	<u>(168)</u>	<u>(208)</u>	<u>(184)</u>	<u>(200)</u>	<u>(760)</u>
Income before taxes	(594)	(109)	62	233	(409)
Income tax	<u>(226)</u>	<u>(13)</u>	<u>21</u>	<u>88</u>	<u>(130)</u>
<i>Tax rate</i>	38.05%	11.93%	33.87%	38.00%	31.74%
Net Income / (Loss)	<u>\$ (368)</u>	<u>\$ (96)</u>	<u>\$ 41</u>	<u>\$ 144</u>	<u>\$ (279)</u>
Basic EPS	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ (0.06)</u>
Diluted EPS	<u>\$ (0.08)</u>	<u>\$ (0.02)</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ (0.06)</u>
Basic Shares Outstanding	4,429	4,492	4,601	4,700	4,556
Diluted Shares Outstanding	4,429	4,492	4,601	4,700	4,556
<u>Percent of Revenue</u>					
Cost of goods sold	84.13%	82.16%	80.37%	79.50%	81.44%
SG&A	18.86%	17.20%	18.10%	17.88%	17.99%
<u>Year / Year Growth</u>					
Total Revenues	-8.28%	-7.78%	5.06%	20.20%	1.58%
Net Income	NA	NA	NA	NMF	NA
EPS	NA	NA	NA	NMF	NA

Quarterly Income Statement for the Year Ending 2004
(in thousands)

	<u>Q1(3/04)E</u>	<u>Q2(6/04)E</u>	<u>Q3(9/04)E</u>	<u>Q4(12/04)E</u>	<u>FY(12/04)E</u>
Net sales	\$ 16,750	\$ 17,000	\$ 17,250	\$ 17,750	\$ 68,750
Cost of sales	<u>13,233</u>	<u>13,345</u>	<u>13,455</u>	<u>13,668</u>	<u>53,700</u>
Gross profit	3,518	3,655	3,795	4,083	15,050
<i>Gross Margin</i>	21.00%	21.50%	22.00%	23.00%	21.89%
SG&A	<u>3,000</u>	<u>3,050</u>	<u>3,100</u>	<u>3,150</u>	<u>12,300</u>
Operating income	518	605	695	933	2,750
<i>Operating Margin</i>	3.09%	3.56%	4.03%	5.25%	4.00%
Interest expense, other income & expenses	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(200)</u>	<u>(800)</u>
Income before taxes	318	405	495	733	1,950
Income tax	<u>121</u>	<u>154</u>	<u>188</u>	<u>278</u>	<u>741</u>
<i>Tax rate</i>	38.00%	38.00%	38.00%	38.00%	38.00%
Net Income / (Loss)	<u>\$ 197</u>	<u>\$ 251</u>	<u>\$ 307</u>	<u>\$ 454</u>	<u>\$ 1,209</u>
Basic EPS	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.26</u>
Diluted EPS	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.10</u>	<u>\$ 0.26</u>
Basic Shares Outstanding	4,700	4,700	4,700	4,700	4,700
Diluted Shares Outstanding	4,700	4,700	4,700	4,700	4,700
<u>Percent of Revenue</u>					
Cost of goods sold	79.00%	78.50%	78.00%	77.00%	78.11%
SG&A	17.91%	17.94%	17.97%	17.75%	17.89%
<u>Year / Year Growth</u>					
Total Revenues	17.59%	10.73%	7.44%	7.58%	10.61%
Net Income	153.49%	361.56%	-648.54%	215.05%	533.57%
EPS	150.41%	349.99%	-632.77%	215.05%	520.24%