

## 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

November 19, 2015

**UFPT \$23.59 — (NASDAQ CM)**

	2013A	2014A	2015E	2016E
Revenues (millions)	\$139.2	\$139.3	\$140.5	\$148.4
Earnings per share (diluted)	\$1.59	\$1.05	\$1.11	\$1.65

52-Week range	\$25.50 – \$17.51	Fiscal year ends:	December
Shares outstanding as of 8/3/15	7.1 million	Revenue per share (TTM)	\$19.45
Approximate float	5.7 million	Price/Sales (TTM)	1.2X
Market capitalization	\$167 million	Price/Sales (2016E)	1.2X
Tangible book value/share	\$13.10	Price/Earnings (TTM)	22.9X
Price/tangible book	1.8X	Price/Earnings (2016E)	14.3X

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

#### **Key investment considerations:**

***Reiterating Buy rating on UFP Technologies and maintaining our twelve-month price target of \$26.50.***

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

***Plant consolidations in 2015 and early 2016 will cut costs by approximately \$1 million annually, driving gross margin improvement to 29.5% in 2016 from 27.3% in 2015.***

***For 2015, we project revenue of \$140.5 million (\$144 million previously) and EPS of \$1.11 (\$1.20 previously). Our decreased projections primarily reflect 3Q15 results.***

***For 2016, we project revenue of \$148.4 million (\$149.7 million previously) and EPS of \$1.65 (\$1.74 previously). Our lower projections take into account reduced average annual growth rate projections for the company's end markets (2.4% versus 4% previously), offset in part by a five-year contract worth an estimated \$45 million that will more than double UFPT's current annual revenue from a key customer.***

***3Q15 revenue (10-Q released 11/6/15) decreased 3% to \$34.4 million and EPS decreased to \$0.28 from \$0.29. We projected 3Q15 revenue of \$36.7 million and EPS of \$0.32.***

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

## ***Recommendation and Valuation***

**We are reiterating our Buy rating on UFP Technologies and maintaining our twelve-month price target of \$26.50.**

Shares of UFPT currently trade at a trailing price to earnings multiple of 23X, up from an average multiple of 18X in 2014. We believe the increase in multiple is primarily due to continued strong demand from the medical market (sales up 13% year-to-date), and the positive outlook for this market (as evidenced by a five-year, \$45 million deal with a key medical customer that will more than double the annual revenue from that customer). The company's direct competitors are trading at an average multiple of 21X TTM earnings (excludes Sealed Air's 42X multiple). We believe the market will accord the stock a multiple of 18X with the growth in earnings we project. We applied a multiple of 18X to our 2016 earnings estimate of \$1.65 per share, discounted to account for execution risk, to obtain a year-ahead value of approximately \$26.50.

## ***Business***

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

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

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

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



## ***Industry Outlook***

In November 2015, IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 1.8% to \$11.3 billion through 2021. However, UFP Technologies' revenue should grow at a higher rate reflecting faster end market growth driven by an aging population, increasing automotive demand, and innovative new electronics products.

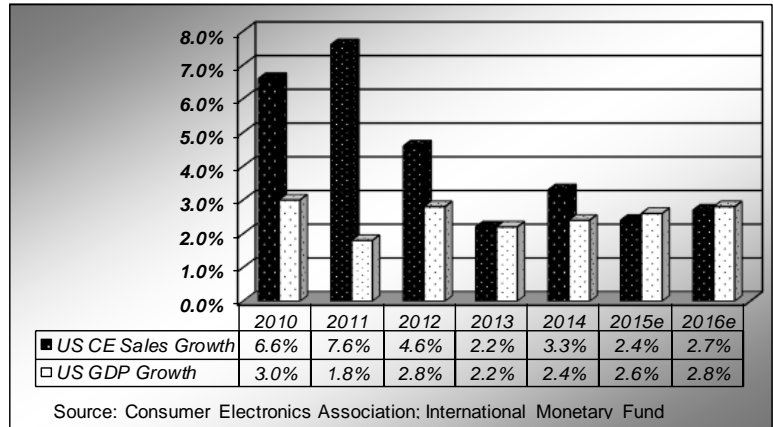
The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years.

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

In October 2015, IBISWorld forecasted medical device industry average annual sales growth of approximately 3.2% to \$53.1 billion during the six years to 2021.

In September 2015, IBISWorld projected the US car and automobile industry to show average annual sales growth of 1.8% to \$141.5 billion in the six years to 2021. Growth will be driven by renewed consumer spending and a move toward green (hybrid and electric fuel-efficient) vehicles.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which are economically sensitive. The chart at right shows how US consumer electronics sales were affected by changes in the economy over the past five years with projections to 2016.



In October 2015, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 0.8% to \$83.6 billion during the six years to 2021. This growth will be driven by technologies such as tablet computers and e-readers and consumer spending.

UFP Technologies’ aerospace and defense products are used in applications such as protective cases and inserts for military equipment (i.e. tools used for large engine rebuilds), uniform and gear components such as backpacks and duty belts used by soldiers in combat, and explosion suppressant foams used in fuel systems of aircrafts. The latest fiscal 2016 Pentagon budget request for US defense spending is higher than the cap set in the Budget Control Act of 2011 (roughly \$500 billion). In November 2015, the President signed a bill that would boost the defense spending base budget to \$548 billion in fiscal 2016 and \$551 billion in fiscal 2017. The bill also provides an additional \$59 billion for the war budget in each of the next two fiscal years, resulting in overall defense budgets of \$607 billion and \$610 billion, respectively. 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.

In October 2015, the International Monetary Fund (IMF) raised its economic growth estimate for the US to 2.6% in 2015 from 2.5% previously (July 2015), but lowered it to 2.8% in 2016 from 3%. The IMF said that US economic growth in the first half of 2015 was weaker than expected, despite a strong second quarter. This reflected setbacks to activity in the first quarter, notably harsh winter weather and port closures, as well as much lower capital spending in the oil sector. The IMF expects the recovery to continue in the US, supported in part by lower energy prices and an improving housing market.

The advance estimate of US GDP growth (released on October 29, 2015) showed the US economy grew at an annual rate of 1.5% in 3Q15, down from 3.9% growth in 2Q15. The 3Q15 US GDP growth estimate primarily reflects a rise in consumer spending. Spending on nondurable and durable goods also rose. Partly offsetting these contributions to GDP growth was falling private inventory investment, mainly in wholesale trade and manufacturing.

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

**Competition**

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

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

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

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

Company	Sales TTM	Gross Margin
Graphic Packaging	\$4.1B (9/15)	19.0%
Packaging Corp. of America	\$5.8B (9/15)	21.3%
Greif	\$3.8B (7/15)	21.3%
Bemis Company	\$4.1B (9/15)	20.8%
Sealed Air Corp.	\$7.3B (9/15)	37.1%
UFP Technologies	\$140.2M (9/15)	26.3%

Source: Yahoo! Finance

UFPT’s margins are at the high end of the range for our comparison group, due arguably to the company’s ability to differentiate its products. Most of the company’s competitors primarily offer conventional shipping and packaging products (i.e. shipping containers and boxes) or flexible packaging products (i.e. plastic bags, films and laminates) whereas UFP Technologies offers products that are custom designed and engineered for specific applications (i.e. customized foam case inserts for the electronics industry).

**Projections**

*2015 Forecast*

For 2015, we project revenue of \$140.5 million (\$144 million previously) and net income of \$8 million or \$1.11 per share (previously \$8.6 million or \$1.20 per share). Excluding the \$1.8 million one-time costs associated with plant consolidations, EPS would be approximately \$1.27. Our decreased projections primarily reflect 3Q15 results.

In 1Q15, the company acquired a commercial building in Newburyport, Massachusetts for approximately \$6.8 million. UFPT plans to cease operations at its Raritan, New Jersey, plant and consolidate operations into its Newburyport, Massachusetts, facility and other UFP facilities. Expectations are for the consolidation to be completed on or before December 31, 2015.

The company will also be relocating all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts facilities and certain operations in its Georgetown, Massachusetts facility to Newburyport. Expectations are for the Haverhill and Byfield relocations to be complete by December 31, 2015 and the Georgetown relocation to be complete by March 31, 2016.

Approximately \$2.1 million in one-time expenses are expected in connection with these consolidations. Annual cost savings should be approximately \$1 million.

Our revenue expectations should boost gross margins to 27.3% from 26.5% as manufacturing overhead is largely fixed. SG&A expenses should increase to \$24.4 million from \$23.8 million in 2014 due primarily to increased compensation costs offset in part by the absence of over \$300,000 of costs associated with a one-time write-off of bad debt. SG&A margins are projected to increase to 17.4%. Operating income is projected to increase to \$12.2 million from \$11.6 million with margins increasing to 8.7% from 8.3%. Taxes are estimated at 35%.

In 2015, we project \$15.4 million cash from operations consisting primarily of cash earnings and a decrease in refundable income taxes. Cash from operations should cover capital expenditures, repayments of long-term debt, and repurchases of common stock, increasing cash by \$482,000 to \$34.5 million at the end of 2015.

### *2016 Forecast*

For 2016, we project revenue growth of 6% to \$148.4 million (\$149.7 million previously). Our lower revenue projection takes into account the reduced projected weighted average growth rates of the company's end markets (2.4% versus 4% previously) offset in part by a five-year contract worth an estimated \$45 million that will more than double UFPT's current annual revenue from a key customer in the medical industry. The drop in the weighted average growth rate of the company's end markets is primarily due to a reduction in the average annual growth rate of the medical device market (currently 3.2% versus 6.1% previously; source: IBISWorld) which makes up approximately 40% of UFPT's total sales. This reduction in the growth rate is primarily due to regulatory changes (which are expected to increase costs and restrain innovation) making it increasingly more attractive to do business overseas.

We project net income of \$11.9 million or \$1.65 per share (\$12.6 million or \$1.74 per share previously). Our lower earnings projection is due primarily to our reduced revenue expectations. A full year of cost savings from the 2015 plant consolidations should widen gross margins to 29.5%.

SG&A expenses should increase to \$25.2 million from \$24.4 million in 2015 due primarily to increased compensation costs. SG&A margins are projected to decrease to 17%. Operating income is projected to increase to \$18.2 million from \$12.2 million with margins increasing to 12.3% from 8.7%. Taxes are estimated at 35%.

In 2016, we project \$17.7 million cash from operations consisting primarily of cash earnings. Cash from operations should cover capital expenditures and repayments of long-term debt, increasing cash by \$10.6 million to \$45.1 million at the end of 2016.

### ***3Q and Nine-Months 2015 Financial Results***

***3Q15*** - Sales decreased 3% to \$34.4 million. Net income decreased to \$2 million or \$0.28 per share from \$2.1 million or \$0.29 per share. We projected 3Q15 sales of \$36.7 million and net income of \$2.3 million or \$0.32 per share.

The decrease in sales was primarily due to a decline in sales to the electronics, industrial and aerospace and defense markets partially offset by an increase in sales to the medical market. The company said that aerospace and defense sales were adversely affected by a large, low margin order in 3Q14 that was not repeated in 3Q15.

Gross margins increased slightly to 27.6% from 27.5% due primarily to a large, low margin order in 3Q14 that was not repeated in 3Q15. SG&A expenses decreased to \$5.6 million from \$5.9 million due primarily to lower compensation costs. Restructuring costs associated with the company's plant consolidations were \$851,000. Operating income remained relatively flat at \$3.1 million resulting in a margin of 8.9%. Excluding restructuring costs, operating income was \$3.9 million versus \$3.8 million in the comparable period in 2014, resulting in margins of 11.3% and 10.8%, respectively. The company showed an effective income tax rate of 35%.

Nine-Months 2015 - Sales increased 1% to \$104.9 million. Net income decreased to \$5.9 million or \$0.82 per share from \$6 million or \$0.84 per share.

The increase in sales was primarily due to increased sales to the medical and automotive markets.

Gross margins decreased to 27.1% from 27.4% due primarily to increased material and labor costs. SG&A expenses remained relatively flat at \$18.4 million. Restructuring costs associated with the company's plant consolidations were \$959,000 and the company recognized a \$31,000 gain on the sale of fixed assets. Operating income remained relatively flat at \$9.1 million resulting in a margin of 8.7%. Excluding restructuring costs, operating income was \$10 million versus \$10.1 million in the comparable period in 2014, resulting in margins of 9.6% and 9.7%, respectively. The company showed an effective income tax rate of 35%.

#### Liquidity

The company has a strong balance sheet. Total debt is \$2.1 million, tangible equity is \$93.5 million, and cash (approximately \$4.11 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.8 for the packaging and containers industry.

Cash earnings of \$10.3 million and a \$1.1 million increase in working capital resulted in \$9.2 million cash from operations in the first nine months of 2015. The increase in working capital was primarily due to increases in accounts receivable and prepaid expenses partially offset by a decrease in refundable income taxes. Capital expenditures of \$13 million, including additions of manufacturing machinery and equipment associated with plant consolidations and the purchase of a new manufacturing and headquarters building in Massachusetts, were the primary drain on cash resulting in a \$4.7 million decrease in cash to \$29.4 million as of September 30, 2015.

UFPT has a \$40 million revolving credit facility with Bank of America with no borrowings as of September 30, 2015. The credit facility bears interest at LIBOR plus 1.0% to 1.5%, or the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The company's revolving credit facility matures November 30, 2018. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant which the company was in compliance with at September 30, 2015.

UFPT has a \$5 million 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was \$2.1 million as of September 30, 2015. The loan is secured by the related molded fiber machines.

#### **Risks**

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

##### Dependence on a small number of customers

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

Income Statement (in thousands \$)		
	9mos15A	9mos14A
Net sales	104,917	104,040
Cost of sales	<u>76,475</u>	<u>75,566</u>
Gross profit	28,442	28,474
Extraordinary items	928	1,026
SG&A	<u>18,404</u>	<u>18,368</u>
Operating income	9,110	9,080
Interest exp, other inc and exp	<u>(7)</u>	<u>132</u>
Income before taxes	9,103	9,212
Income tax	<u>3,186</u>	<u>3,224</u>
Net Income / (Loss)	<u>5,917</u>	<u>5,988</u>
EPS	<u>0.82</u>	<u>0.84</u>
Shares Outstanding	7,212	7,170
<u>Margin Analysis</u>		
Gross margin	27.1%	27.4%
SG&A	17.5%	17.7%
Operating margin	8.7%	8.7%
Tax rate	35.0%	35.0%
<u>Year / Year Growth</u>		
Total Revenues	0.8%	
Net Income	(1.2)%	
EPS	(1.8)%	
Source: Company filings		

Competition

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

Economic conditions

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

Environmental considerations

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

Liquidity

With only 7.1 million shares outstanding and 5.7 million in the float, liquidity issues must be considered. Average daily volume has been approximately 12,000 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.

UFP Technologies, Inc.

Balance Sheets  
(in thousands \$)

	<u>2012A</u>	<u>2013A</u>	<u>2014A</u>	<u>9/15A</u>	<u>2015E</u>	<u>2016E</u>
Cash and cash equivalents	33,479	37,303	34,052	29,355	34,534	45,110
Receivables	17,836	17,032	16,470	19,255	16,613	17,545
Inventories	9,695	11,048	12,893	13,535	12,853	13,166
Prepaid expenses	654	690	664	1,346	1,346	1,346
Refundable income taxes	1,714	1,537	3,192	908	908	908
Deferred income taxes	<u>1,116</u>	<u>1,222</u>	<u>1,142</u>	<u>1,170</u>	<u>1,170</u>	<u>1,170</u>
Total current assets	64,494	68,832	68,413	65,569	67,424	79,244
Net property, plant and equipment	23,318	25,507	34,843	44,577	44,702	46,674
Goodwill	7,039	7,322	7,322	7,322	7,322	7,322
Intangible assets	2,084	1,346	953	715	635	317
Other assets	<u>1,682</u>	<u>2,013</u>	<u>2,159</u>	<u>2,054</u>	<u>2,054</u>	<u>2,054</u>
<b>Total assets</b>	<b><u>98,617</u></b>	<b><u>105,020</u></b>	<b><u>113,690</u></b>	<b><u>120,237</u></b>	<b><u>122,137</u></b>	<b><u>135,611</u></b>
Current portion of long-term debt	1,550	976	993	1,009	1,009	1,009
Accounts payable	4,088	3,081	5,398	4,732	5,381	5,512
Accrued expenses	<u>7,593</u>	<u>8,265</u>	<u>5,222</u>	<u>6,442</u>	<u>5,267</u>	<u>5,563</u>
Total current liabilities	13,231	12,322	11,613	12,183	11,658	12,084
Long-term debt	8,314	2,867	1,873	1,112	1,112	612
Deferred income taxes	1,589	2,436	3,588	3,899	3,899	3,899
Other liabilities	<u>2,222</u>	<u>1,805</u>	<u>1,624</u>	<u>1,488</u>	<u>1,488</u>	<u>1,488</u>
<b>Total liabilities</b>	<b><u>25,356</u></b>	<b><u>19,430</u></b>	<b><u>18,698</u></b>	<b><u>18,682</u></b>	<b><u>18,157</u></b>	<b><u>18,083</u></b>
<b>Total stockholders' equity</b>	<b><u>73,261</u></b>	<b><u>85,590</u></b>	<b><u>94,992</u></b>	<b><u>101,555</u></b>	<b><u>103,980</u></b>	<b><u>117,528</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>98,617</u></b>	<b><u>105,020</u></b>	<b><u>113,690</u></b>	<b><u>120,237</u></b>	<b><u>122,137</u></b>	<b><u>135,611</u></b>

Source: Company filings and Taglich Brothers' estimates



UFP Technologies, Inc.

Annual Income Statements  
(in thousands \$)

	<u>2012A</u>	<u>2013A</u>	<u>2014A</u>	<u>2015E</u>	<u>2016E</u>
Net sales	130,962	139,223	139,307	140,517	148,400
Cost of sales	<u>92,777</u>	<u>98,574</u>	<u>102,427</u>	<u>102,108</u>	<u>104,592</u>
Gross profit	38,185	40,649	36,880	38,409	43,808
Extraordinary items	(12)	11	1,472	1,778	400
SG&A	<u>21,531</u>	<u>23,240</u>	<u>23,847</u>	<u>24,404</u>	<u>25,225</u>
Operating income	16,666	17,398	11,561	12,227	18,183
Non-operating (expenses) income	<u>(92)</u>	<u>(205)</u>	<u>204</u>	<u>43</u>	<u>200</u>
Income before taxes	16,574	17,193	11,765	12,270	18,383
Income tax	<u>5,679</u>	<u>5,917</u>	<u>4,206</u>	<u>4,294</u>	<u>6,434</u>
Net Income / (Loss)	<u>10,895</u>	<u>11,276</u>	<u>7,559</u>	<u>7,976</u>	<u>11,949</u>
EPS	<u>1.55</u>	<u>1.59</u>	<u>1.05</u>	<u>1.11</u>	<u>1.65</u>
Shares Outstanding	7,028	7,105	7,175	7,216	7,230
<u>Margin Analysis</u>					
Gross margin	29.2%	29.2%	26.5%	27.3%	29.5%
SG&A	16.4%	16.7%	17.1%	17.4%	17.0%
Operating margin	12.7%	12.5%	8.3%	8.7%	12.3%
Pretax margin	12.7%	12.3%	8.4%	8.7%	12.4%
Tax rate	34.3%	34.4%	35.8%	35.0%	35.0%
<u>Year / Year Growth</u>					
Total Revenues	2.9%	6.3%	0.1%	0.9%	5.6%
Net Income	5.3%	3.5%	(33.0)%	5.5%	49.8%
EPS	4.9%	2.4%	(33.6)%	4.9%	49.5%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

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

	<u>3/14A</u>	<u>6/14A</u>	<u>9/14A</u>	<u>12/14A</u>	<u>2014A</u>	<u>3/15A</u>	<u>6/15A</u>	<u>9/15A</u>	<u>12/15E</u>	<u>2015E</u>	<u>3/16E</u>	<u>6/16E</u>	<u>9/16E</u>	<u>12/16E</u>	<u>2016E</u>
Net sales	34,609	34,025	35,406	35,267	139,307	33,977	36,499	34,441	35,600	140,517	35,600	37,800	37,200	37,800	148,400
Cost of sales	<u>25,580</u>	<u>24,549</u>	<u>25,723</u>	<u>26,575</u>	<u>102,427</u>	<u>25,339</u>	<u>26,206</u>	<u>24,931</u>	<u>25,632</u>	<u>102,108</u>	<u>25,632</u>	<u>26,460</u>	<u>26,040</u>	<u>26,460</u>	<u>104,592</u>
Gross profit	9,029	9,476	9,683	8,692	36,880	8,638	10,293	9,510	9,968	38,409	9,968	11,340	11,160	11,340	43,808
Extraordinary items	-	222	714	536	1,472	47	30	851	850	1,778	400	-	-	-	400
SG&A	<u>5,834</u>	<u>6,466</u>	<u>5,871</u>	<u>5,676</u>	<u>23,847</u>	<u>6,024</u>	<u>6,776</u>	<u>5,604</u>	<u>6,000</u>	<u>24,404</u>	<u>6,100</u>	<u>6,800</u>	<u>6,150</u>	<u>6,175</u>	<u>25,225</u>
Operating income	3,195	2,788	3,098	2,480	11,561	2,567	3,487	3,055	3,118	12,227	3,468	4,540	5,010	5,165	18,183
Non-operating (expenses) income	<u>(22)</u>	<u>73</u>	<u>81</u>	<u>72</u>	<u>204</u>	<u>(24)</u>	<u>8</u>	<u>9</u>	<u>50</u>	<u>43</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>200</u>
Income before taxes	3,173	2,861	3,179	2,552	11,765	2,543	3,495	3,064	3,168	12,270	3,518	4,590	5,060	5,215	18,383
Income tax	<u>1,111</u>	<u>1,001</u>	<u>1,113</u>	<u>981</u>	<u>4,206</u>	<u>890</u>	<u>1,223</u>	<u>1,072</u>	<u>1,109</u>	<u>4,294</u>	<u>1,231</u>	<u>1,607</u>	<u>1,771</u>	<u>1,825</u>	<u>6,434</u>
Net Income / (Loss)	<u>2,062</u>	<u>1,860</u>	<u>2,066</u>	<u>1,571</u>	<u>7,559</u>	<u>1,653</u>	<u>2,272</u>	<u>1,992</u>	<u>2,059</u>	<u>7,976</u>	<u>2,287</u>	<u>2,984</u>	<u>3,289</u>	<u>3,390</u>	<u>11,949</u>
EPS	<u>0.29</u>	<u>0.26</u>	<u>0.29</u>	<u>0.22</u>	<u>1.05</u>	<u>0.23</u>	<u>0.32</u>	<u>0.28</u>	<u>0.28</u>	<u>1.11</u>	<u>0.32</u>	<u>0.41</u>	<u>0.45</u>	<u>0.47</u>	<u>1.65</u>
Shares Outstanding	7,148	7,168	7,186	7,192	7,175	7,193	7,210	7,230	7,230	7,216	7,230	7,230	7,230	7,230	7,230
<u>Margin Analysis</u>															
Gross margin	26.1%	27.9%	27.3%	24.6%	26.5%	25.4%	28.2%	27.6%	28.0%	27.3%	28.0%	30.0%	30.0%	30.0%	29.5%
SG&A	16.9%	19.0%	16.6%	16.1%	17.1%	17.7%	18.6%	16.3%	16.9%	17.4%	17.1%	18.0%	16.5%	16.3%	17.0%
Operating margin	9.2%	8.2%	8.7%	7.0%	8.3%	7.6%	9.6%	8.9%	8.8%	8.7%	9.7%	12.0%	13.5%	13.7%	12.3%
Pretax margin	9.2%	8.4%	9.0%	7.2%	8.4%	7.5%	9.6%	8.9%	8.9%	8.7%	9.9%	12.1%	13.6%	13.8%	12.4%
Tax rate	35.0%	35.0%	35.0%	38.4%	35.8%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
<u>Year / Year Growth</u>															
Total Revenues	2.7%	-5.0%	2.0%	0.8%	0.1%	-1.8%	7.3%	(2.7)%	0.9%	0.9%	4.8%	3.6%	8.0%	6.2%	5.6%
Net Income	1.6%	(37.6)%	(28.4)%	(53.5)%	(33.0)%	(19.8)%	22.2%	(3.6)%	31.1%	5.5%	38.3%	31.3%	65.1%	64.6%	49.8%
EPS	0.7%	(38.3)%	(29.2)%	(53.9)%	(33.6)%	(20.3)%	21.4%	(4.2)%	30.4%	4.9%	37.6%	31.0%	65.1%	64.6%	49.5%

Source: Company filings and Taglich Brothers' estimates

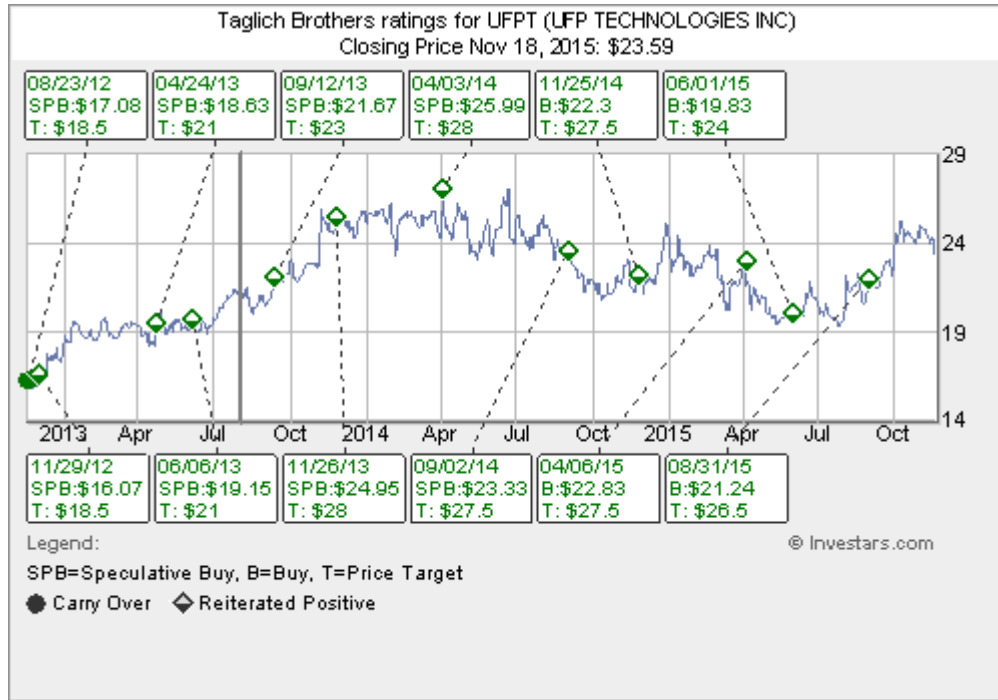
UFP Technologies, Inc.

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

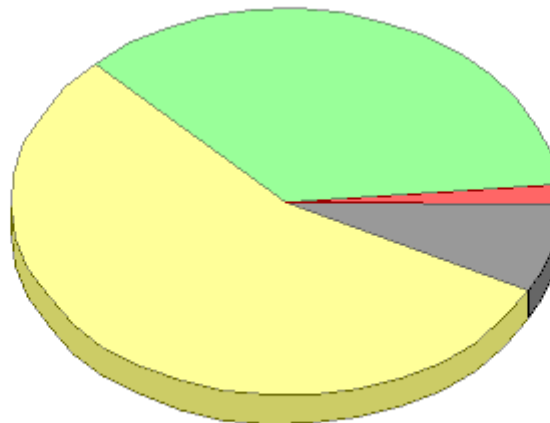
	2012A	2013A	2014A	9mos15A	2015E	2016E
Net income	10,895	11,276	7,559	5,917	7,976	11,949
Depreciation & amortization	2,928	4,084	4,376	3,507	5,232	5,346
(Gain) loss on disposal of property, plant and equipment	(12)	11	5	(31)	(31)	-
Share-based compensation	860	924	1,119	873	1,200	1,200
Excess tax benefit on share-based compensation	(832)	(818)	(1,219)	(219)	(219)	(219)
Deferred income taxes	610	740	1,232	283	283	109
Cash earnings	14,449	16,217	13,072	10,330	14,441	18,385
<i>Changes in assets and liabilities</i>						
Receivables	(842)	804	562	(2,785)	(143)	(932)
Inventories	801	(1,353)	(1,845)	(642)	40	(313)
Prepaid expenses	(65)	(36)	26	(682)	(682)	-
Refundable income taxes	(695)	994	(436)	2,503	1,730	110
Accounts payable	384	(1,007)	2,317	(666)	(17)	131
Accrued expenses and other	2,143	1,272	(2,243)	1,220	45	295
Retirement and other liabilities	190	(417)	(181)	(136)	(136)	-
Other assets	(203)	(368)	(146)	105	105	-
(Increase) decrease in working capital	1,713	(111)	(1,946)	(1,083)	943	(708)
<b>Net Cash Provided by Operations</b>	<b>16,162</b>	<b>16,106</b>	<b>11,126</b>	<b>9,247</b>	<b>15,384</b>	<b>17,677</b>
Additions to property, plant and equipment	(11,994)	(5,830)	(13,436)	(13,003)	(14,000)	(7,000)
Redemption of cash value life insurance	-	37	-	-	-	-
Proceeds from sale of property, plant and equipment	86	1	112	31	31	-
Acquisitions	(3,596)	(600)	-	-	-	-
<b>Net Cash Used in Investing</b>	<b>(15,504)</b>	<b>(6,392)</b>	<b>(13,324)</b>	<b>(12,972)</b>	<b>(13,969)</b>	<b>(7,000)</b>
Proceeds from long-term borrowings	4,384	580	-	-	-	-
Distribution to United Development Company partners	(1,196)	-	-	-	-	-
Repurchases of common stock	-	-	-	(587)	(587)	-
Tax benefit from exercise of non-qualified stock options	832	818	1,219	219	219	219
Proceeds from exercise of stock options	365	191	336	220	300	300
Payment of statutory withholdings for stock options exercised	(672)	(879)	(831)	(79)	(120)	(120)
Principal repayments of long-term debt	(740)	(6,601)	(977)	(745)	(745)	(500)
Payment of contingent note payable	-	-	(800)	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-	-
<b>Net Cash Provided by (Used in) Financing</b>	<b>2,973</b>	<b>(5,891)</b>	<b>(1,053)</b>	<b>(972)</b>	<b>(933)</b>	<b>(101)</b>
<b>Net Change in Cash</b>	<b>3,631</b>	<b>3,823</b>	<b>(3,251)</b>	<b>(4,697)</b>	<b>482</b>	<b>10,576</b>
<b>Cash - Beginning of Period</b>	<b>29,849</b>	<b>33,480</b>	<b>37,303</b>	<b>34,052</b>	<b>34,052</b>	<b>34,534</b>
<b>Cash - End of Period</b>	<b>33,480</b>	<b>37,303</b>	<b>34,052</b>	<b>29,355</b>	<b>34,534</b>	<b>45,110</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



35.82 % Buy 55.22 % Hold 7.46 % Not Rated 1.49 % Sell

<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	1	5
Hold		
Sell		
Not Rated		

### **Important Disclosures**

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

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### **Analyst Certification**

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

### **Public Companies Mentioned in this Report**

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

### **Meaning of Ratings**

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

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

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

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

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

### **Some notable Risks within the Microcap Market**

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

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