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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: Buy

John Nobile

November 22, 2016

UFPT $26.15 — (NASDAQ CM)

	2014A	2015A	2016E	2017E
Revenues (millions)	$139.3	$138.9	$145.1	$155.3
Earnings per share (diluted)	$1.05	$1.05	$1.12	$1.57

52-Week range	$27.50 – $20.40	Fiscal year ends:	December
Shares outstanding as of 11/2/16	7.2 million	Revenue per share (TTM)	$19.74
Approximate float	5.4 million	Price/Sales (TTM)	1.3X
Market capitalization	$188 million	Price/Sales (2017)E	1.2X
Tangible book value/share	$14.36	Price/Earnings (TTM)	23.3X
Price/tangible book	1.8X	Price/Earnings (2017)E	16.7X

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. Lowering twelve-month price target to $28.25 from $30.00 previously due to lowered earnings projections.

Continued strong demand from the medical device market (sales up 14% in 2015 and 15% year-to-date), 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.

Although costs associated with plant consolidations are higher than previously expected and have resulted in lowered gross margin projections, the eventual $1 million annual cost savings from these consolidations should drive gross margin improvement from 24.1% in 2016 to 27.3% in 2017.

For 2016, we project revenue growth of 5% to $145.1 million and EPS of $1.12. Our change in projections ($144.9 million in revenue and EPS of $1.35 previously) primarily reflects 3Q16 results and lower gross margins from the temporary hiring needed to assist in the requalification of parts due to plant consolidations.

For 2017, we project revenue growth of 7% to $155.3 million and EPS of $1.57. The change in our projections (previously $153.6 million in revenue and EPS of $1.78) is primarily due to continued strong growth in the medical market and lower gross margins than previously projected.

3Q16 revenue (10-Q released 11/9/16) increased 8% to $37.2 million. Net income increased to $2.7 million or $0.37 per share from $2 million or $0.28 per share. Excluding a $1.7 million material overcharge settlement in 3Q16, net income was $1.6 million or $0.22 per share. We projected 3Q16 sales of $37 million and net income of $3.5 million or $0.48 per share.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

We are reiterating our Buy rating on UFP Technologies. Lowering twelve-month price target to $28.25 from $30.00 previously due to lowered earnings projections.

Shares of UFPT currently trade at a forward earnings multiple of 17X, up from 15X two months earlier and 13X six months earlier. The company's direct competitors are trading at an average forward multiple of 16X 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. With continued growth in earnings projected for 2017 (41% versus flat for the packaging and containers industry), UFPT's forward multiple should continue to expand. Applying a multiple of 18X to our 2017 earnings projection, our year-ahead target is approximately $28.25.

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.

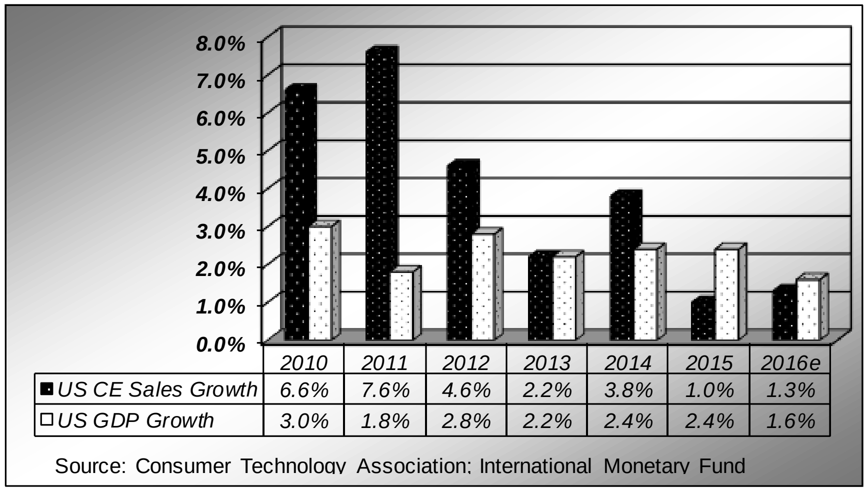
The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years.

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 September 2016, IBISWorld forecasted medical device industry average annual sales growth of approximately 3% to $50.6 billion during the six years to 2022.

In November 2016, IBISWorld projected the US car and automobile industry to show average annual sales growth of 2.1% to $132.3 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.



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 October 2016, the International Monetary Fund (IMF) projected global economic growth of 3.1% in 2016 and 3.4% in 2017, unchanged from an earlier (July 2016) growth forecast. The growth estimate primarily reflects the continued subdued outlook for advanced economies following 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 1.6% in 2016, and 2.2% in 2017, down from an earlier (July 2016) growth forecast of 2.2% for 2016 and 2.5% for 2017. The IMF said that although job creation has been healthy, the housing market has been improving, and consumer spending remains robust, a prolonged inventory correction and weak business investment prompted the downward revision.

The advance estimate of US GDP growth (released on October 28, 2016) showed the US economy grew at an annual rate of 2.9% in 3Q16, up from 1.4% growth in 2Q16. The 3Q16 US GDP growth estimate primarily reflects a rise in consumer spending on services and durable goods, and increased exports of goods and services. Partly offsetting these contributions to GDP growth were declines in housing investment, consumer spending on nondurable goods, and government spending.

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	$4.3B (9/16)	18.5%
Packaging Corp. of America	$5.7B (9/16)	21.3%
Greif	$3.3B (7/16)	20.2%
Bemis Company	$4.0B (9/16)	21.8%
Sealed Air Corp.	$6.8B (9/16)	38.1%
UFP Technologies	$143.6M (9/16)	26.1%

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 substantially completed the relocation of certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility by the end of 3Q16. 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 September 30, 2016. 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 5% to $145.1 million and net income of $8.1 million or $1.12 per share. Our change in projections ($144.9 million in revenue and net income of $9.8 million or $1.35 per share previously) primarily reflects 3Q16 results and lower gross margins from the temporary hiring of employees to assist in the requalification of parts due to recent plant consolidations.

Because of the added expenses associated with recent consolidations, we have lowered our gross margin projection to 24.1% (26.3% previously). SG&A expenses should increase to $24.4 million from $24 million in 2015 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16.8% from 17.3% in 2015. Operating income is projected to increase to $12.5 million from $11.7 million with margins increasing to 8.6% from 8.4%. Taxes are estimated at 35.3%.

In 2016, we project $13 million cash from operations from cash earnings of $14.6 million and a $1.7 million increase in working capital. The increase in working capital is due primarily to an increase in inventories and prepaid expenses. Cash from operations should cover capital expenditures and repayment of debt, increasing cash by $4.9 million to $34.7 million at the end of 2016.

2017 Forecast

For 2017, we project revenue growth of 7% to $155.3 million and net income of $11.5 million or $1.57 per share. The change in our projections (previously $153.6 million in revenue and net income of $13 million or $1.78 per share) is 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, and lower gross margins than previously projected (27.3% from 29.5% previously due to the spillover of temporary costs related to recent consolidations).

SG&A expenses should increase to $24.8 million from $24.4 million in 2016 due primarily to increased compensation costs. SG&A margins are projected to decrease to 16% from 16.8%. Operating income is projected to increase to $17.6 million from $12.5 million with margins increasing to 11.3% from 8.6%. Taxes are estimated at 35%.

In 2017, we project $16.8 million cash from operations from cash earnings of $18.1 million and a $1.3 million 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 $10.6 million to $45.3 million at the end of 2017.

3Q and Nine Months 2016 Financial Results

3Q16 - Sales increased 8% to $37.2 million. Net income increased to $2.7 million or $0.37 per share from $2 million or $0.28 per share. Excluding a $1.7 million material overcharge settlement in 3Q16, net income was $1.6 million or $0.22 per share after taxes. We projected 3Q16 sales of $37 million and net income of $3.5 million or $0.48 per share.

The increase in sales was primarily a result of increased sales to the medical, consumer and automotive 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. The increase in sales to the automotive market was primarily due to increased demand for interior trim parts. 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.

Gross margins decreased to 22.7% from 27.6% primarily due to temporary manufacturing inefficiencies associated with recent plant consolidations, the hiring of temporary employees for requalifying parts for many of the company's medical customers, and a one-time costs of approximately $365,000 associated with the plant consolidations.

SG&A expenses increased to $6 million from $5.6 million primarily due to one-time consulting and recruiting costs associated with filling open positions and training. Restructuring costs associated with the company's plant consolidations (included in extraordinary items) were $25,000.

Operating income increased to $4.1 million in 3Q16 from $3.1 million in 3Q15 for margins of 11% and 8.9%, respectively. Excluding the material overcharge settlement in 3Q16, operating income was $2.4 million for a margin of 6.4%. The company showed an effective income tax rate of 35%.

Nine Months 2016 - Sales increased 4% to $109.6 million. Net income increased to $6.5 million or $0.89 per share from $5.9 million or $0.82 per share. Excluding $2.1 million of material overcharge settlement gains, net income was $5.1 million or $0.70 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 weak demand for protective packaging.

Gross margins decreased to 24.1% from 27.1% 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.

Income Statement
(in thousands $)

	9m16A	9m15A
Net sales	109,626	104,917
Cost of sales	83,161	76,475
Gross profit	26,465	28,442
Extraordinary items	(1,915)	928
SG&A	18,402	18,404
Operating income	9,978	9,110
Interest exp, other inc and exp	51	(7)
Income before taxes	10,029	9,103
Income tax	3,550	3,186
Net Income / (Loss)	6,479	5,917
EPS	0.89	0.82
Shares Outstanding	7,294	7,212
Margin Analysis		
Gross margin	24.1%	27.1%
SG&A	16.8%	17.5%
Operating margin	9.1%	8.7%
Tax rate	35.4%	35.0%
Year / Year Growth		
Total Revenues	4.5%	
Net Income	9.5%	
EPS	8.3%	

Source: Company filings

SG&A expenses remained flat at $18.4 million. Restructuring costs associated with the company's plant consolidations (included in extraordinary items) were $203,000.

Operating income increased to $10 million from $9.1 million for margins of 9.1% and 8.7%, respectively. Excluding the material overcharge settlement in 2016, operating income was $7.9 million for a margin of 7.2%. The company showed an effective income tax rate of 35.7%.

Liquidity

The company has a strong balance sheet. Total debt is $1.1 million, tangible equity is $103.8 million, and cash (approximately $4.17 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.7 for the packaging and containers industry.

Cash earnings of $11.6 million and a $5 million increase in working capital resulted in $6.6 million cash provided by operations in the first nine 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 and $529,000 proceeds from the exercise of stock options covered $6.1 million of capital expenditures and $758,000 repayments of debt resulting in a $314,000 increase in cash to $30.1 million as of September 30, 2016.

UFPT has a $40 million revolving credit facility with Bank of America with no borrowings as of September 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 September 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 $1.1 million as of September 30, 2016. The loan is secured by the related molded fiber machines.

Risks

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

<u>Dependence on a small number of customers</u>
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.

<u>Competition</u>
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.

<u>Economic conditions</u>
Poor economic conditions could negatively impact sales of the company's packaging customers.

<u>Environmental considerations</u>
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.

<u>Liquidity</u>
With only 7.2 million shares outstanding and 5.4 million in the float, liquidity issues must be considered. Average daily volume has been approximately 23,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

<u>Miscellaneous</u>
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	9/16A	2016E	2017E
Cash and cash equivalents	37,303	34,052	29,804	30,118	34,690	45,264
Receivables	17,032	16,470	17,481	22,307	18,271	19,552
Inventories	11,048	12,893	14,202	14,568	15,425	15,813
Prepaid expenses	690	664	930	2,161	2,161	2,161
Refundable income taxes	1,537	3,192	1,186	481	481	481
Deferred income taxes	1,222	-	-	-	-	-
Total current assets	68,832	67,271	63,603	69,635	71,028	83,271
Net property, plant and equipment	25,507	34,843	46,555	48,762	49,675	50,689
Goodwill	7,322	7,322	7,322	7,322	7,322	7,322
Intangible assets	1,346	953	636	397	318	-
Other assets	2,013	2,159	1,834	1,927	1,927	1,927
Total assets	**105,020**	**112,548**	**119,950**	**128,043**	**130,270**	**143,209**
Current portion of long-term debt	976	993	1,011	1,028	1,028	-
Accounts payable	3,081	5,398	4,598	5,106	4,994	5,119
Accrued expenses	8,265	5,222	5,374	5,372	5,617	6,011
Total current liabilities	12,322	11,613	10,983	11,506	11,639	11,130
Long-term debt	2,867	1,873	859	84	-	-
Deferred income taxes	2,436	2,446	2,883	3,107	3,107	3,107
Other liabilities	1,805	1,624	1,653	1,858	1,868	1,868
Total liabilities	**19,430**	**17,556**	**16,378**	**16,555**	**16,614**	**16,105**
Total stockholders' equity	**85,590**	**94,992**	**103,572**	**111,488**	**113,656**	**127,104**
Total liabilities & stockholders' equity	**105,020**	**112,548**	**119,950**	**128,043**	**130,270**	**143,209**

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	145,125	155,300
Cost of sales	98,574	102,427	101,397	110,131	112,897
Gross profit	40,649	36,880	37,453	34,994	42,403
Extraordinary items	11	1,472	1,731	(1,905)	-
SG&A	23,240	23,847	24,009	24,401	24,800
Operating income	17,398	11,561	11,713	12,498	17,603
Non-operating (expenses) income	(205)	204	27	71	80
Income before taxes	17,193	11,765	11,740	12,569	17,683
Income tax	5,917	4,206	4,147	4,439	6,189
Net Income / (Loss)	11,276	7,559	7,593	8,130	11,494
EPS	1.59	1.05	1.05	1.12	1.57
Shares Outstanding	7,105	7,175	7,219	7,285	7,300
Margin Analysis					
Gross margin	29.2%	26.5%	27.0%	24.1%	27.3%
SG&A	16.7%	17.1%	17.3%	16.8%	16.0%
Operating margin	12.5%	8.3%	8.4%	8.6%	11.3%
Pretax margin	12.3%	8.4%	8.5%	8.7%	11.4%
Tax rate	34.4%	35.8%	35.3%	35.3%	35.0%
Year / Year Growth					
Total Revenues	6.3%	0.1%	(0.3)%	4.5%	7.0%
Net Income	3.5%	(33.0)%	0.4%	7.1%	41.4%
EPS	2.4%	(33.6)%	(0.2)%	6.1%	41.1%

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	9/16A	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	37,220	35,500	145,125	36,900	40,600	39,800	38,000	155,300
Cost of sales	25,339	26,206	24,931	24,921	101,397	26,776	27,607	28,768	26,980	110,131	27,675	28,826	28,656	27,740	112,897
Gross profit	8,638	10,293	9,510	9,012	37,453	7,727	10,295	8,452	8,520	34,994	9,225	11,774	11,144	10,260	42,403
Extraordinary items	47	30	851	803	1,731	119	(368)	(1,656)	-	(1,905)	-	-	-	-	-
SG&A	6,024	6,776	5,604	5,605	24,009	5,904	6,470	6,027	6,000	24,401	6,050	6,400	6,250	6,100	24,800
Operating income	2,567	3,487	3,055	2,604	11,713	1,704	4,193	4,081	2,520	12,498	3,175	5,374	4,894	4,160	17,603
Non-operating (expenses) income	(24)	8	9	34	27	11	15	25	20	71	20	20	20	20	80
Income before taxes	2,543	3,495	3,064	2,638	11,740	1,715	4,208	4,106	2,540	12,569	3,195	5,394	4,914	4,180	17,683
Income tax	890	1,223	1,072	962	4,147	640	1,473	1,437	889	4,439	1,118	1,888	1,720	1,463	6,189
Net Income / (Loss)	1,653	2,272	1,992	1,676	7,593	1,075	2,735	2,669	1,651	8,130	2,077	3,506	3,194	2,717	11,494
EPS	0.23	0.32	0.28	0.23	1.05	0.15	0.38	0.37	0.23	1.12	0.28	0.48	0.44	0.37	1.57
Shares Outstanding	7,193	7,210	7,230	7,248	7,219	7,255	7,271	7,312	7,300	7,285	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%	22.7%	24.0%	24.1%	25.0%	29.0%	28.0%	27.0%	27.3%
SG&A	17.7%	18.6%	16.3%	16.5%	17.3%	17.1%	17.1%	16.2%	16.9%	16.8%	16.4%	15.8%	15.7%	16.1%	16.0%
Operating margin	7.6%	9.6%	8.9%	7.7%	8.4%	4.9%	11.1%	11.0%	7.1%	8.6%	8.6%	13.2%	12.3%	10.9%	11.3%
Pretax margin	7.5%	9.6%	8.9%	7.8%	8.5%	5.0%	11.1%	11.0%	7.2%	8.7%	8.7%	13.3%	12.3%	11.0%	11.4%
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%	8.1%	4.6%	4.5%	6.9%	7.1%	6.9%	7.0%	7.0%
Net Income	(19.8)%	22.2%	(3.6)%	6.7%	0.4%	(35.0)%	20.4%	34.0%	(1.5)%	7.1%	93.2%	28.2%	19.7%	64.6%	41.4%
EPS	(20.3)%	21.4%	(4.2)%	5.9%	(0.2)%	(35.5)%	19.4%	32.5%	(2.2)%	6.1%	92.0%	27.7%	19.9%	64.6%	41.1%

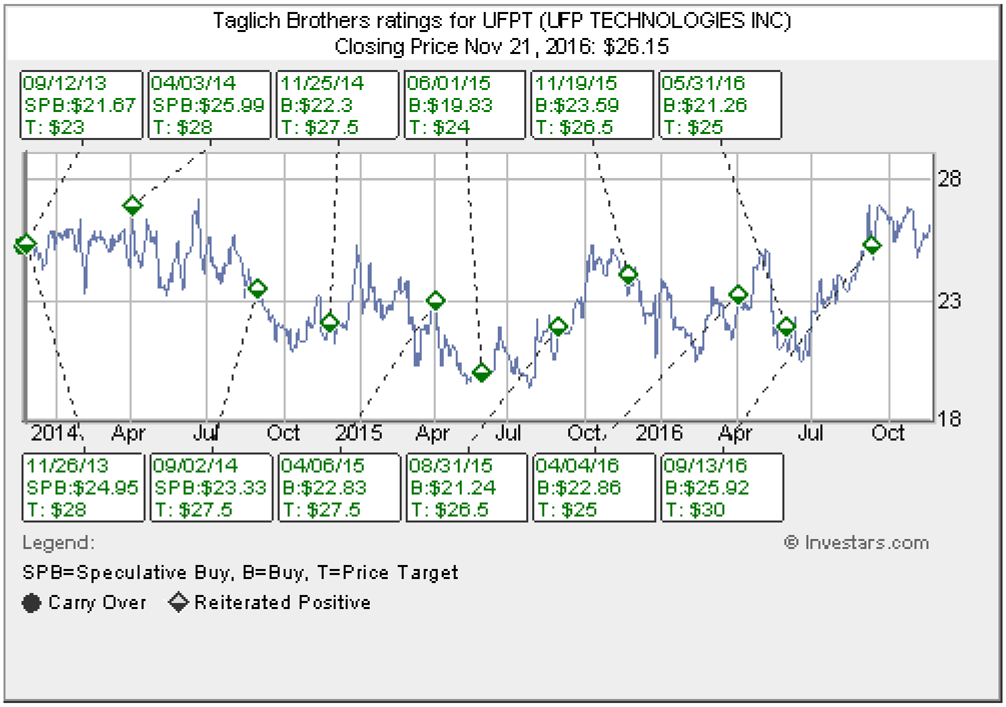
Source: Company filings and Taglich Brothers' estimates

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

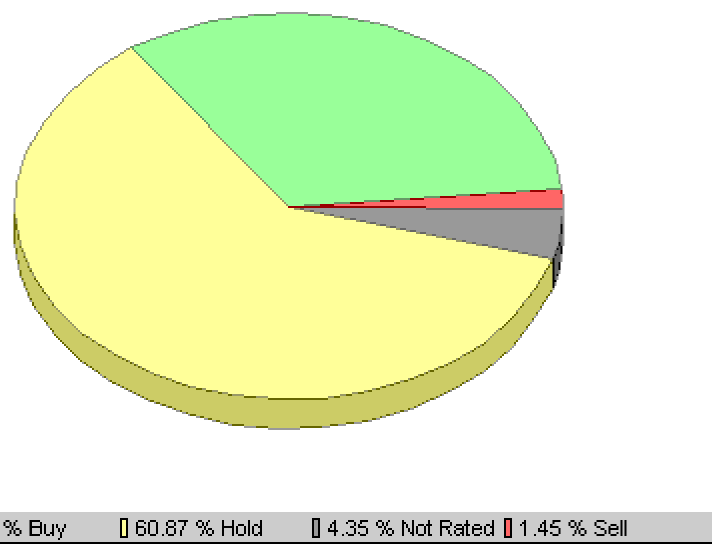
	2013A	2014A	2015A	9m16A	2016E	2017E
Net income	11,276	7,559	7,593	6,479	8,130	11,494
Depreciation & amortization	4,084	4,376	4,846	4,109	5,198	5,304
(Gain) loss on disposal of property, plant and equipment	11	5	27	(4)	(4)	-
Share-based compensation	924	1,119	1,069	871	1,200	1,200
Excess tax benefit on share-based compensation	(818)	(1,219)	(356)	(126)	(126)	(126)
Deferred income taxes	740	1,232	437	224	224	251
Cash earnings	16,217	13,072	13,616	11,553	14,622	18,123
Changes in assets and liabilities						
Receivables	804	562	(1,011)	(4,826)	(790)	(1,281)
Inventories	(1,353)	(1,845)	(1,309)	(366)	(1,223)	(387)
Prepaid expenses	(36)	26	(266)	(1,231)	(1,231)	-
Refundable income taxes	994	(436)	2,362	831	831	-
Accounts payable	(1,007)	2,317	(800)	508	396	-
Accrued expenses and other	1,272	(2,243)	152	(2)	243	394
Retirement and other liabilities	(417)	(181)	29	205	215	-
Other assets	(368)	(146)	325	(93)	(93)	-
(Increase) decrease in working capital	(111)	(1,946)	(518)	(4,974)	(1,652)	(1,275)
Net Cash Provided by Operations	**16,106**	**11,126**	**13,098**	**6,579**	**12,970**	**16,848**
Additions to property, plant and equipment	(5,830)	(13,436)	(16,321)	(6,077)	(8,000)	(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)**	**(6,073)**	**(7,996)**	**(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	168	168
Proceeds from exercise of stock options	191	336	358	529	705	705
Payment of statutory withholdings for stock options exercised	(879)	(831)	(209)	(89)	(119)	(119)
Principal repayments of long-term debt	(6,601)	(977)	(996)	(758)	(842)	(1,028)
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)**	**(192)**	**(88)**	**(274)**
Net Change in Cash	**3,823**	**(3,251)**	**(4,248)**	**314**	**4,886**	**10,574**
Cash - Beginning of Period	**33,480**	**37,303**	**34,052**	**29,804**	**29,804**	**34,690**
Cash - End of Period	**37,303**	**34,052**	**29,804**	**30,118**	**34,690**	**45,264**

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	3	12
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.