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## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### Unique Fabricating, Inc.

**Speculative Buy**

John Nobile

June 8, 2018

**UFAB \$9.00 — (NYSE MKT)**

	<u>2016A</u>	<u>2017A</u>	<u>2018E</u>	<u>2019E</u>
Revenues (millions)	\$170.5	\$175.3	\$183.0	\$198.0
Earnings (loss) per share	\$0.68	\$0.66	\$0.70	\$1.21

52-Week range	\$9.70 – \$7.42	Fiscal year ends:	December
Common shares out as of 5/4/18	9.8 million	Revenue per share (TTM)	\$17.65
Approximate float	6.8 million	Price/Sales (TTM)	0.5X
Market capitalization	\$88 million	Price/Sales (FY2019)E	0.5X
Tangible book value/share	\$0.36	Price/Earnings (TTM)	15.0X
Price/tangible book value	25.0X	Price/Earnings (FY2019)E	7.4X
Annual dividend	\$0.60	Annual dividend yield	6.7%

*Headquartered in Auburn Hills, MI, Unique Fabricating (UFAB) is engaged in the engineering and manufacture of multi-material foam, rubber, and plastic components. These components are utilized for reducing noise, vibration and harshness, acoustical management, water and air sealing, decorative and other functional applications.*

#### Key investment considerations:

***Reiterating our Speculative Buy rating on Unique Fabricating, Inc. and raising our twelve-month price target to \$12.50 per share from \$12.00 based on our increased 2019 earnings forecast.***

***The company's product sales and programs are highly correlated with new vehicle production in North America. According to LMC Automotive, the level of automobile production in North America is projected to remain relatively flat through 2021 at approximately 17.2 million annually. However, current trends of reducing a vehicle's weight and increasing passenger comfort, and a significant amount of new business (approximately \$10 million annually) that is scheduled to launch in 4Q18 and be at full production in 2019, should allow the company to grow sales through 2019 and beyond.***

***For FY18, we project 4.4% revenue growth to \$183 million (unchanged) and EPS of \$0.70 (\$0.75 previously). Our lowered EPS forecast is due primarily to higher expenses associated with the implementation of a new ERP system than originally anticipated.***

***For FY19, we project 8.2% revenue growth to \$198 million and EPS of \$1.21, up from our previous revenue projection of \$192 million and EPS forecast of \$1.15. The increases are primarily due to a full production run rate expected in 2019 from the \$10 million in annual new business that was awarded in 2H17.***

***UFAB reported (5/10/18) 1Q18 EPS of \$0.15 on a 1.2% decrease in revenue to \$47.3 million. EPS in 1Q17 was \$0.21. We projected revenue of \$45 million and EPS of \$0.14.***

***\*Please view our disclosures on pages 13 - 15.***

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**Recommendation and Valuation**

**Reiterating our Speculative Buy rating on Unique Fabricating, Inc. and raising our twelve-month price target to \$12.50 per share from \$12.00** based on our increased 2019 earnings forecast.

The company's product sales and programs are highly correlated with new vehicle production in North America. According to LMC Automotive, the level of automobile production in North America is projected to remain relatively flat through 2021 at approximately 17.2 million annually. However, current trends of reducing a vehicle's weight and increasing passenger comfort, and a significant amount of new business (approximately \$10 million annually) that is scheduled to launch in 4Q18 and be at full production in 2019, enabling the company to grow sales through 2019 and beyond.

UFAB is undervalued relative to its peers (see chart below) given UFAB'S 2019 EPS growth rate compared to its peers. The company's relative valuation should improve as earnings growth materializes.

Company	Symbol	Price	Market Cap \$M	Trailing P/E	2019 P/E	2019 EPS Growth
Gentherm	THRM	37.85	1,393	23.8	14.5	12.5%
Fox Factory Holding	FOXF	42.7	1,609	26.9	20.8	12.6%
Standard Motor Products	SMP	47.32	1,064	18.6	13.3	27.5%
Modine Manufacturing	MOD	19.15	967	12.4	9.5	16.1%
Motorcar Parts of America	MPAA	21.57	411	12.0	8.4	35.1%
Superior Industries International	SUP	18.85	471	21.4	22.4	110.0%
Tower International	TOWR	31.15	642	8.2	7.5	0.2%
Stoneridge	SRI	31.47	896	18.5	14.0	7.1%
Horizon Global	HZN	6.46	162	8.2	6.2	46.5%
Strattec Security	STRT	39.25	146	NA	NA	NA
<b>Peer Average</b>				<b>16.7</b>	<b>13.0</b>	<b>29.7%</b>
<b>Unique Fabricating</b>	<b>UFAB</b>	<b>9</b>	<b>88</b>	<b>15.0</b>	<b>7.4</b>	<b>72.9%</b>

Source: Taglich Brothers estimates, Thomson Reuters

The company trades at a 2019 multiple of 7.4X based on our forecast of \$1.21 per share. The company's peers trade at a forward multiple of 13X projected 2019 earnings. We believe UFAB's multiple will approach that of its peers as earnings growth accelerates at a rate greater than its peers. We applied a multiple of 13X (unchanged from our prior report) to our FY19 EPS projection of \$1.21, discounted to account for execution risk, to obtain a year-ahead value of approximately \$12.50 per share.

**Business**

Headquartered in Auburn Hills, MI, Unique Fabricating (UFAB) is engaged in the engineering and manufacture of multi-material foam, rubber, and plastic components. These components are utilized to reduce noise, vibration and harshness, acoustical management, water and air sealing, decorative and other functional applications.

The company was formed through the acquisitions of Prescottech Holdings, Chardan Corporation, Great Lakes Foam Technologies, and Intasco Corporation. A brief description of each acquisition can be seen in the table at the top of page three.

UFAB's products are sold mainly to the North American automotive industry (approximately 83% of total sales in FY17) and are used in industrial applications such as appliances, water heaters, and heating, ventilation, and air conditioning (HVAC) systems (approximately 12% of total sales in FY17).

Acquired Company / (acquisition date)	Company Overview
Prescottech Holdings, Inc. / (December 2013)	Prescottech Holdings, Inc., is a designer and manufacturer of foams, adhesives, rubber products, fiberglass insulation products, fiberboards, and sound dampening products.
Chardan Corporation / (February 2014)	Chardan Corporation is a provider of engineered vacuum thermoforming (the forming of plastic sheets into three-dimensional shapes through the application of heat and pressure) and fusion molding (a plastic injection molding process used to mold internal cavities) technologies.
Great Lakes Foam Technologies / (August 2015)	Great Lakes Foam Technologies is a producer of reaction injection molded polyurethane (a manufacturing process for producing parts by injecting thermosetting polymers into a mold) components.
Intasco Corporation / (April 2016)	Intasco Corporation provides material conversion of pressure sensitive products (conversion of raw materials such as foams, plastics, and rubbers, into new products) as well as adhesives and automotive die cuts.

Unique’s primary products are identified by their manufacturing processes, die cut products, thermoformed/compression molded products (includes reaction injection molding), and fusion molded products. Die cut products are utilized in applications such as air and water sealing, insulation, NVH (noise, vibration, and harshness) performance and BSR (buzz, squeak, rattle) conditions. Thermoformed and compression molded products include HVAC air ducts, door water shields, evaporator liners, console bin mats and fender insulators, among others. Fusion molded products include exterior mirror seals, cowl-to-hood seals, cowl-to-fender seals, and other NVH management and sealing applications like fillers, spacers and gaskets.

Pictured below are UFAB’s products used by automotive customers.

**Products: Automotive Components** Source: Unique Fabricating Investor Presentation

**Production Processes:**

- Thermoformed | Compression Products
- Die Cut Products
- Fusion Molded Products

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## ***Industry***

UFAB engineers and manufactures multi-material foam, rubber, and plastic components.

### *Urethane Foam Products Manufacturing*

Products made with this type of foam are used to insulate objects, reduce shock in packaging, seat cushioning, carpet cushioning, car interiors, fluid filtration systems, and anti-noise and vibration systems.

The Urethane Foam Manufacturing industry has expanded annually by 2% reaching \$11.6 billion in 2017 from 2013. IBISWorld projects average annual revenue growth of 0.9% to \$12.1 billion in 2024 from 2017. With 11.9% of the total market, this would equate to a \$1.4 billion market for automotive and automotive parts manufacturers by 2024 assuming the current percentages hold steady.

Improving economic conditions have sustained increased demand from major downstream markets. The state of the US automotive industry, including domestic production volumes, affects demand for foam products. The automotive industry uses polyurethane foam in car seats and insulation applications with demand directly correlated automobile production levels. When more vehicles are manufactured, more foam products will be purchased by the automotive industry for inputs into their vehicles and their components. A greater focus on fuel efficiency will result in more prevalent use of foam in automobile production, given its light weight. LMC Automotive projects the level of automobile production in North America to remain relatively flat through 2021 at approximately 17.2 million annually.

### *Rubber Products Manufacturing*

The rubber products manufacturing industry is projected to have generated sales of approximately \$20.8 billion in 2017 (according to IBISWorld) with 23.9% or \$5 billion coming from the automotive segment. IBISWorld projects overall industry revenue growth at an annualized rate of 1.8% reaching \$23.1 billion in 2023. Growth reflects the performance of downstream rubber products buyers that include a host of manufacturing industries including automotive and industrial product manufacturers.

Since 2012, revenue derived from automotive rubber parts has steadily increased. Growing demand from automobile manufacturers has been driven primarily by a strengthening economy and strong demand for lighter, more fuel-efficient cars, as well as increased demand for SUVs and light trucks.

Automotive rubber products account for the largest segment of the industry's products, and demand for rubber products associated with automobile and other manufactured goods will increase as manufacturing activity gains momentum.

### *Plastic Products Manufacturing*

IBISWorld projects the 2018 plastic products manufacturing industry to generate approximately \$100 billion in sales with 26.7% or \$26.7 billion coming from automobile manufacturers that use plastic in vehicle interiors and in some engine components. The overall industry is projected to grow at an annualized rate of 0.6% to \$103.4 billion to 2024. Driving growth will be demand from downstream markets that includes the car and automobile manufacturing industry, one of the largest markets for plastic product manufacturers.

Federal regulations requiring cars to have an average fuel economy of 54.5 miles per gallon by 2025 could boost automotive manufacturing moving forward. However, in April 2018, the Trump administration released a proposal that would freeze the average at the 2020 goal of around 42 MPG. A simple way for car manufacturers to increase fuel efficiency is to produce lighter cars by using plastic materials instead of steel.

**End Markets**

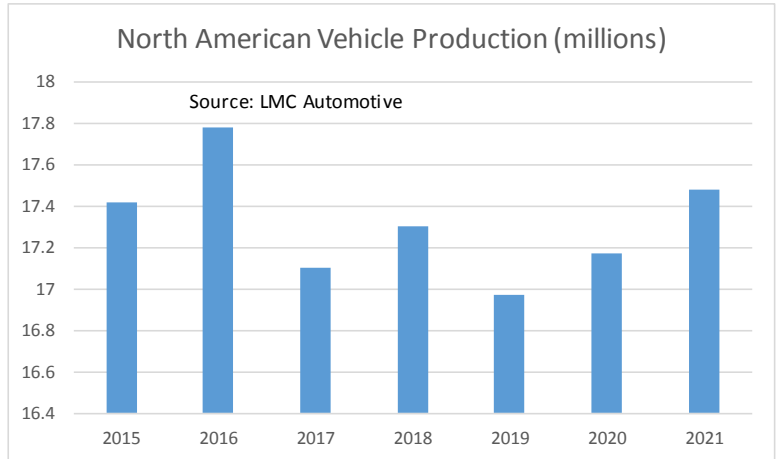
Automotive

The automotive parts industry provides components, systems, subsystems and modules to OEMs for the manufacture of new vehicles. In 2017, Dun & Bradstreet reported the North American automotive supplier market had revenue of approximately \$250 billion. Within the automotive parts industry, North America is UFAB’s core market.

Demand for automotive parts in the OEM market is generally a function of the number of new vehicles produced. Although OEM demand is tied to actual vehicle production, participants in the automotive parts industry also have the opportunity to grow through increasing product content per vehicle. We believe that the current trend of increasing fuel efficiency and lowering vehicle weight should help drive increased usage of parts produced by UFAB.

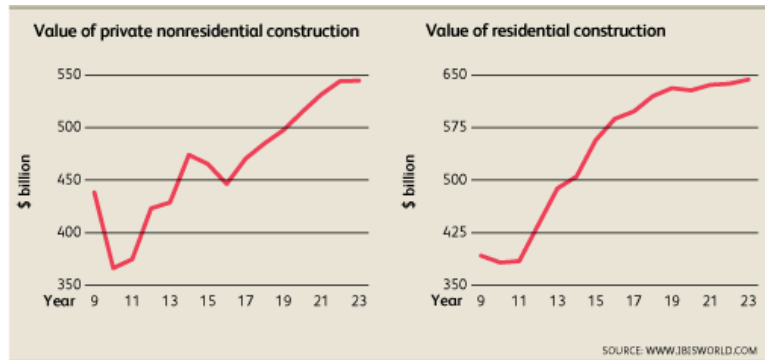
The evolution of materials utilized in vehicles is moving away from conventional steel and is expected to be increasingly replaced by lighter weight materials such as plastics and foam materials.

North American demand has plateaued but is projected to remain at a relatively high level. According to LMC Automotive, the level of car production in North America is projected to average approximately 17.2 million annually through 2021 (see chart at right).



Industrial (Appliance/Water Heater/HVAC)

Demand for the company’s products in industrial applications is largely driven by the health of the construction industry. IBISWorld projects the value of private nonresidential construction to grow from approximately \$450 billion in 2016 to approximately \$550 billion in 2023. The value of residential construction is projected to grow from approximately \$600 billion in 2016 to approximately \$650 billion in 2023 (see chart at right). A growing construction market should bode well for sales of the company’s products to the appliance, HVAC, and water heater industries.



The US heating, ventilation and air conditioning (HVAC) industry is forecast to show modest growth through 2024, driven mostly by nonresidential growth. IBISWorld projects industry revenue to increase at an average annual rate of 1.6% to reach approximately \$51.5 billion in the six years to 2024.

Unique estimates the market for its core business for multi-material foam, rubber and plastic components utilized for noise, vibration and harshness (NVH) reduction, air and water sealing, and functional and decorative applications to be approximately \$600 million in North America.

### ***1Q17 Financial Results***

1Q17 - Net income decreased to \$1.5 million or \$0.15 per share on a 1.2% decrease in revenue to \$47.3 million. Net income in 1Q17 was \$2 million or \$0.21 per share. We projected revenue of \$45 million and net income of \$1.4 million or \$0.14 per share.

The decrease in revenue was primarily due to a 2.1% decline in North American vehicle production partially offset by increased market penetration.

Gross profit remained relatively flat at \$11.1 million with gross margins increasing to 23.3% from 23.2% due primarily to a favorable product mix.

SG&A expenses increased to \$8 million from \$7.6 million due primarily to costs associated with the implementation of a new ERP system. Operating expense margin (excluding restructuring expenses of \$442,000 in 1Q18) increased to 16.8% from 15.9%. Operating income decreased 24% to \$2.7 million or 5.6% of sales versus operating income of \$3.5 million or 7.3% of sales in the year ago period. Interest expense increased to \$736,000 from \$616,000 due primarily to higher interest rates and a higher average debt balance. The company paid \$387,000 in taxes for a tax rate of 20.4%. UFAB paid taxes of \$867,000 in 1Q17 for a tax rate of 29.8%.

Liquidity - As of March 31, 2018, the company had \$1.2 million cash, a current ratio of 2.4 versus 1.4 for the car parts industry, \$55.4 million of debt (of which \$4 million is current) for a debt/equity ratio of 1.1X versus 0.6X for the industry, and approximately 40% of assets are covered by equity.

In 1Q18, cash provided by operations was approximately \$1.5 million consisting of cash earnings of \$3.2 million and a \$1.7 million increase in working capital. The increase in working capital was primarily due to increased receivables offset in part by decreased payables. Cash used in investing activities consisted primarily of \$1.7 million of capital expenditures. Cash used in financing of \$43,000 consisted primarily of dividend payments offset in part by increased debt. Cash decreased by \$251,000 to \$1.2 million at March 31, 2018.

The company has a \$62 million credit agreement with Citizens Bank, NA. The credit agreement consists of a revolving line of credit of up to \$30 million and two term loans totaling \$32 million. The revolver and term loans mature on April 28, 2021 and bear interest at the greater of the prime rate or the federal funds rate plus a margin ranging from 1.75% to 2.50%, or LIBOR plus a margin ranging from 1.75% to 3.75%, based on senior leverage ratio thresholds measured quarterly. The effective interest rate as of March 31, 2018 was approximately 5.15%.

The company must comply with a minimum debt service financial covenant and a senior funded indebtedness to EBITDA covenant. As of April 1, 2018, UFAB was in compliance with all loan covenants.

### ***Economic Outlook***

As Unique's customers are principally engaged in the North American automotive industry (approximately 83% of FY17 sales), the economic outlook for this region should have a direct influence on its sales.

In April 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from January 2018. The growth estimates reflect strong momentum, favorable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the US.

The IMF raised its economic growth estimate for the US to 2.9% in 2018 and 2.7% in 2019, up from its earlier (January 2018) growth forecast of 2.7% for 2018 and 2.5% for 2019. The upward revision reflects stronger than expected US economic growth due to firmer external demand, and the expected economic impact from 2018 tax policy changes, in particular the reduction in corporate tax rates and the temporary allowance for full expensing of investments.

The second estimate of US GDP growth (released on May 30, 2018) showed the US economy grew at an annual rate of 2.2% in 1Q18, down from 2.9% growth in 4Q17. The 1Q18 US GDP growth estimate primarily reflects increases in business investment, consumer spending, exports, government spending, and inventory investment.

### ***Projections***

The company's product sales and programs are highly correlated with new vehicle production in North America. According to LMC Automotive, the level of automobile production in North America is projected to remain relatively flat through 2021 at approximately 17.2 million annually. However, current trends of reducing a vehicle's weight and increasing passenger comfort should support sales growth for UFAB through 2019.

Our projections should be supported by a significant amount of new business that was booked in 2H17. The company was awarded \$10 million in annualized business with new customers. The new business will consist primarily of higher margin molded products scheduled to launch in 4Q18 with the full run rate expected in 2019.

Further growth could also come from the company's TwinShape duct programs. The TwinShape foam duct line is currently in production at three vehicle OEMs and has been selected by an additional OEM for a future vehicle. Four OEMs are also evaluating UFAB's TwinShape ducts for potential inclusion in future vehicle launches.

*FY18* - We project 4.4% revenue growth to \$183 million (unchanged from prior forecast) and net income of \$7 million or \$0.70 per share (prior was \$7.4 million or \$0.75 per share). Our lower EPS forecast is due primarily to higher expenses associated with the implementation of a new ERP system than originally anticipated.

We project gross profit of \$44 million, up from \$40.1 million, as gross margins increase to 24% from 22.9% on greater overhead coverage and benefit from 2018 plant consolidations. In February 2018, UFAB announced the decision to close its Port Huron and Fort Smith manufacturing facilities and transfer production to the company's other existing manufacturing facilities in an effort to streamline operations, improve efficiency, and better position its manufacturing geographically to support growth. Pretax cost savings are expected to be in excess of \$800,000 annually beginning in 3Q18.

SG&A expenses should increase to \$31.3 million from \$29.8 million in 2017 due to increased cash compensation and costs associated with the implementation of a new ERP system. SG&A margins should increase to 17.1% from 17%.

We project interest expense increasing to \$2.8 million from \$2.7 million due to higher average debt levels. Our tax rate estimate is 23.2%.

We project UFAB will generate cash of \$12.7 million from operations as \$15.4 million cash earnings are partly offset by a \$2.7 million increase in working capital. The increase in working capital should come primarily from an increase in receivables and prepaid expenses. Cash from operations should cover our projected capital expenditures, repayment of debt, and dividend payments, increasing cash by \$893,000 to \$2.3 million at December 31, 2018.

*FY19* - We project 8.2% revenue growth to \$198 million and net income of \$12 million or \$1.21 per share, up from our previous revenue projection of \$192 million and net income forecast of \$11.3 million or \$1.15 per share. The increases reflect a full production run rate in 2019 from \$10 million in annual new business that was awarded in 2H17.

We project gross profit of \$49.5 million, up from \$44 million, as gross margins increase to 25% from 24% on greater overhead coverage and a full year's benefit from the 2018 plant consolidations.

SG&A expenses should remain at \$31.2 million as the expenses associated with the implementation of a new ERP system should not be present as they were in 2018. SG&A margins should decrease to 15.8% from 17.1%.

We project interest expense decreasing to \$2.6 million from \$2.8 million due to lower average debt levels. Our tax rate estimate is 24%.

We project UFAB will generate cash of \$16.2 million from operations as \$18.9 million cash earning, partly offset by a \$2.7 million increase in working capital. The increase in working capital should come primarily from an increase in receivables. Cash from operations should cover projected capital expenditures, repayment of debt, and dividend payments, increasing cash by \$281,000 to \$2.6 million at December 31, 2019.

## ***Risks***

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

*Substantial debt level* – As of March 31, 2017, UFAB had approximately \$55.4 million of debt outstanding. If the company were to default on paying its debt or fail to comply with the covenants, its lenders could take action that could lead to stockholders losing their current dividend and ultimately their entire investment.

*Major customers may exert significant influence* - The vehicle component supply industry is highly fragmented and serves a limited number of large OEMs that have a significant amount of leverage over their suppliers. The company's contracts with major OEM and Tier 1 customers frequently provide for annual productivity cost reductions which UFAB has been able to offset through product design changes, increased productivity and similar programs with its suppliers. If UFAB is unable to generate sufficient production cost savings to offset price reductions, its gross margins and profitability would be adversely affected.

*Dependency on a few major customers* – UFAB's three largest customers accounted for approximately 18.5% of net sales in FY17. The loss or insolvency of any of the company's major customers would adversely affect future results.

*Competition* – The vehicle component supply industry is highly competitive. UFAB'S products primarily compete on the basis of price, breadth of product offerings, product quality, technical expertise and development capability, product delivery and product service. Increased competition may lead to price reductions resulting in reduced gross margins and loss of market share.

*Exchange rate risks* – UFAB has two manufacturing facilities in Mexico and one in Canada. Because a portion of the company's manufacturing costs are incurred in Mexican pesos and Canadian dollars, fluctuations in the US dollar/Mexican peso, and US dollar/Canadian dollar exchange rates, may have a material effect on profitability, cash flows, and financial position.

*Cyclical nature of business* - The demand for the company's products is largely dependent on North American production of automobiles. UFAB's business is cyclical in nature as new vehicle demand is dependent on, among other things, consumer spending, which is closely tied to the overall strength of the economy. A weakening economy would likely lead to declines in vehicle production and adversely impact the company's financial condition.

*NAFTA uncertainty* - A significant portion of UFAB's business is conducted in Mexico. The current US President has made comments suggesting that he was not supportive of certain existing international trade agreements, including the North American Free Trade Agreement (NAFTA). While it remains unclear what actions will be taken if the US were to withdraw from or materially modify NAFTA or certain other international trade agreements, UFAB's business, financial condition and results of operations could be adversely affected.

*Liquidity risk* - Shares of Unique Fabricating have risks common to those of the microcap segment of the market. Often these risks 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 and can lead to large spreads and high volatility in stock price. There are 6.8 million shares in the float and the average daily volume is approximately 24,000 shares.



Unique Fabricating, Inc.

*Miscellaneous risk* - 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.

Consolidated Balance Sheets  
(in thousands \$)

	<u>FY15A</u>	<u>FY16A</u>	<u>FY17A</u>	<u>3/18A</u>	<u>FY18E</u>	<u>FY19E</u>
Cash	727	706	1,431	1,179	2,324	2,605
Accounts receivable	20,480	26,888	27,204	31,267	28,401	30,729
Inventory	14,586	16,731	16,330	16,903	16,787	17,932
Prepaid expenses and other	4,647	2,870	4,608	5,777	5,777	5,777
<b>Total current assets</b>	<b>40,440</b>	<b>47,195</b>	<b>49,573</b>	<b>55,126</b>	<b>53,289</b>	<b>57,043</b>
Property, plant and equipment	18,761	21,198	22,975	23,324	24,416	26,668
Goodwill	19,214	28,871	28,871	28,871	28,871	28,871
Intangible assets	20,139	23,759	19,636	18,605	15,566	11,621
Other assets	1,175	1,514	1,750	1,893	1,893	1,893
<b>Total assets</b>	<b><u>99,729</u></b>	<b><u>122,537</u></b>	<b><u>122,805</u></b>	<b><u>127,819</u></b>	<b><u>124,035</u></b>	<b><u>126,096</u></b>
Accounts payable	11,431	13,452	11,708	14,785	12,035	12,857
Current portion of long-term debt	2,519	2,405	3,800	4,000	4,000	4,000
Income taxes payable	-	611	349	424	424	424
Accrued compensation	2,284	2,734	2,841	2,667	2,667	2,667
Other accrued liabilities	1,159	1,066	1,027	1,093	1,093	1,093
Other liabilities	-	169	-	-	-	-
<b>Total current liabilities</b>	<b>17,393</b>	<b>20,437</b>	<b>19,725</b>	<b>22,969</b>	<b>20,219</b>	<b>21,041</b>
Long-term debt	13,907	28,029	27,289	26,307	25,207	22,607
Line of credit	14,595	20,176	22,476	25,068	23,968	21,468
Other liabilities	5,821	3,836	2,433	2,483	2,483	2,483
<b>Total liabilities</b>	<b><u>51,716</u></b>	<b><u>72,478</u></b>	<b><u>71,923</u></b>	<b><u>76,827</u></b>	<b><u>71,877</u></b>	<b><u>67,599</u></b>
<b>Total stockholders' equity</b>	<b><u>48,013</u></b>	<b><u>50,059</u></b>	<b><u>50,882</u></b>	<b><u>50,992</u></b>	<b><u>52,158</u></b>	<b><u>58,497</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>99,729</u></b>	<b><u>122,537</u></b>	<b><u>122,805</u></b>	<b><u>127,819</u></b>	<b><u>124,035</u></b>	<b><u>126,096</u></b>

Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

Income Statements for the Fiscal Years Ended  
(in thousands \$)

	<u>FY15A</u>	<u>FY16A</u>	<u>2017A</u>	<u>2018E</u>	<u>2019E</u>
Sales	143,309	170,463	175,288	183,004	198,000
Cost of sales	<u>109,488</u>	<u>130,919</u>	<u>135,234</u>	<u>139,016</u>	<u>148,500</u>
Gross profit	33,821	39,544	40,054	43,988	49,500
Selling, general, and administrative	23,372	27,524	29,767	31,267	31,200
Restructuring expenses	<u>374</u>	<u>35</u>	<u>-</u>	<u>842</u>	<u>-</u>
Operating income	10,075	11,985	10,287	11,879	18,300
Other income	23	92	78	24	80
Interest expense	<u>(2,755)</u>	<u>(2,135)</u>	<u>(2,745)</u>	<u>(2,841)</u>	<u>(2,566)</u>
Income before income taxes	<u>7,343</u>	<u>9,942</u>	<u>7,620</u>	<u>9,062</u>	<u>15,814</u>
Income tax	2,314	3,258	1,133	2,106	3,795
Net income	<u>5,029</u>	<u>6,684</u>	<u>6,487</u>	<u>6,956</u>	<u>12,019</u>
EPS	<u>0.60</u>	<u>0.68</u>	<u>0.66</u>	<u>0.70</u>	<u>1.21</u>
Shares Outstanding	8,427	9,896	9,899	9,912	9,912
<u>Margin Analysis</u>					
Gross margin	23.6%	23.2%	22.9%	24.0%	25.0%
SG&A	16.3%	16.1%	17.0%	17.1%	15.8%
Operating margin	7.0%	7.0%	5.9%	6.5%	9.2%
Tax rate	31.5%	32.8%	14.9%	23.2%	24.0%
Net margin	3.5%	3.9%	3.7%	3.8%	6.1%
<u>Year / Year Growth</u>					
Total Revenues		18.9%	2.8%	4.4%	8.2%
Net Income		32.9%	(2.9)%	7.2%	72.8%
EPS		13.2%	(3.0)%	7.1%	72.8%

Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

Quarterly Income Statement 2017A to 2019E  
(in thousands \$)

	<u>3/17A</u>	<u>6/17A</u>	<u>9/17A</u>	<u>12/17A</u>	<u>2017A</u>	<u>3/18A</u>	<u>6/18E</u>	<u>9/18E</u>	<u>12/18E</u>	<u>2018E</u>	<u>3/19E</u>	<u>6/19E</u>	<u>9/19E</u>	<u>12/19E</u>	<u>2019E</u>
Sales	47,857	44,518	41,231	41,681	175,288	47,304	48,200	44,000	43,500	183,004	51,200	52,100	47,600	47,100	198,000
Cost of sales	<u>36,750</u>	<u>33,852</u>	<u>32,256</u>	<u>32,376</u>	<u>135,234</u>	<u>36,224</u>	<u>36,728</u>	<u>33,330</u>	<u>32,734</u>	<u>139,016</u>	<u>38,400</u>	<u>39,075</u>	<u>35,700</u>	<u>35,325</u>	<u>148,500</u>
Gross profit	11,107	10,666	8,975	9,305	40,054	11,080	11,472	10,670	10,766	43,988	12,800	13,025	11,900	11,775	49,500
Selling, general, and administrative	7,592	7,595	7,269	7,311	29,767	7,967	8,000	7,650	7,650	31,267	7,900	7,900	7,700	7,700	31,200
Restructuring expenses	-	-	-	-	-	442	250	150	-	842	-	-	-	-	-
Operating income	3,515	3,071	1,706	1,994	10,287	2,671	3,222	2,870	3,116	11,879	4,900	5,125	4,200	4,075	18,300
Other income	14	29	40	(5)	78	(36)	20	20	20	24	20	20	20	20	80
Interest expense	<u>(615)</u>	<u>(703)</u>	<u>(770)</u>	<u>(657)</u>	<u>(2,745)</u>	<u>(736)</u>	<u>(719)</u>	<u>(702)</u>	<u>(684)</u>	<u>(2,841)</u>	<u>(667)</u>	<u>(650)</u>	<u>(633)</u>	<u>(616)</u>	<u>(2,566)</u>
Income before income taxes	<u>2,914</u>	<u>2,397</u>	<u>976</u>	<u>1,332</u>	<u>7,620</u>	<u>1,899</u>	<u>2,523</u>	<u>2,188</u>	<u>2,452</u>	<u>9,062</u>	<u>4,253</u>	<u>4,495</u>	<u>3,587</u>	<u>3,479</u>	<u>15,814</u>
Income tax	867	729	261	(724)	1,133	387	605	525	589	2,106	1,021	1,079	861	835	3,795
Net income	<u>2,047</u>	<u>1,668</u>	<u>715</u>	<u>2,056</u>	<u>6,487</u>	<u>1,512</u>	<u>1,917</u>	<u>1,663</u>	<u>1,864</u>	<u>6,956</u>	<u>3,232</u>	<u>3,416</u>	<u>2,726</u>	<u>2,644</u>	<u>12,019</u>
EPS	<u>0.21</u>	<u>0.17</u>	<u>0.07</u>	<u>0.21</u>	<u>0.66</u>	<u>0.15</u>	<u>0.19</u>	<u>0.17</u>	<u>0.19</u>	<u>0.70</u>	<u>0.33</u>	<u>0.34</u>	<u>0.28</u>	<u>0.27</u>	<u>1.21</u>
Shares Outstanding	9,917	9,910	9,898	9,888	9,899	9,912	9,912	9,912	9,912	9,912	9,912	9,912	9,912	9,912	9,912
<u>Margin Analysis</u>															
Gross margin	23.2%	24.0%	21.8%	22.3%	22.9%	23.3%	23.8%	24.3%	24.8%	24.0%	25.0%	25.0%	25.0%	25.0%	25.0%
SG&A	15.9%	17.1%	17.6%	17.5%	17.0%	16.8%	16.6%	17.4%	17.6%	17.1%	15.4%	15.2%	16.2%	16.3%	15.8%
Operating margin	7.3%	6.9%	4.1%	4.8%	5.9%	5.6%	6.7%	6.5%	7.2%	6.5%	9.6%	9.8%	8.8%	8.7%	9.2%
Tax rate	29.8%	30.4%	26.7%	(54.4)%	14.9%	20.4%	24.0%	24.0%	24.0%	23.2%	24.0%	24.0%	24.0%	24.0%	24.0%
Net margin	4.3%	3.7%	1.7%	4.9%	3.7%	3.2%	4.0%	3.8%	4.3%	3.8%	6.3%	6.6%	5.7%	5.6%	6.1%
<u>Year / Year Growth</u>															
Total Revenues	19.7%	5.9%	(7.9)%	(4.6)%	2.8%	(1.2)%	8.3%	6.7%	4.4%	4.4%	8.2%	8.1%	8.2%	8.3%	8.2%
Net Income	11.7%	178.5%	(71.6)%	18.8%	(2.9)%	(26.1)%	14.9%	132.6%	(9.4)%	7.2%	113.8%	78.2%	63.9%	41.9%	72.8%
EPS	10.7%	178.4%	(71.6)%	19.3%	(3.0)%	(26.1)%	14.9%	132.2%	(9.6)%	7.1%	113.8%	78.2%	63.9%	41.9%	72.8%

Source: Company filings and Taglich Brothers' estimates

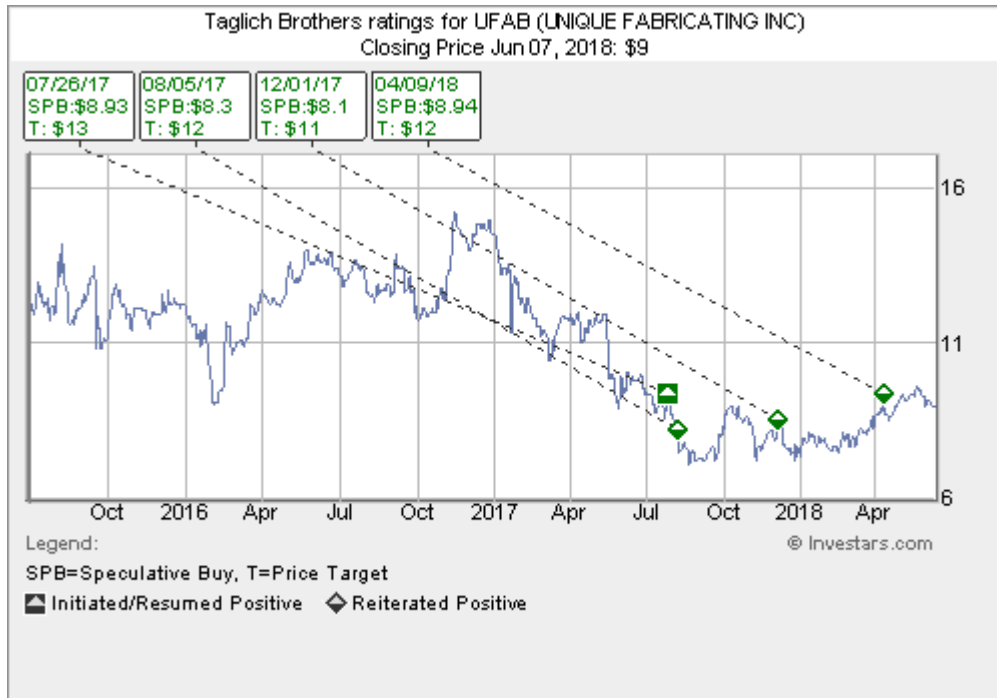
Unique Fabricating, Inc.

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

	FY15A	FY16A	FY17A	3m18A	FY18E	FY19E
Net income	5,029	6,684	6,487	1,512	6,956	12,019
Depreciation and amortization	3,903	5,502	6,320	1,634	6,570	6,693
Amortization of debt issuance costs	270	128	149	36	150	150
(Gain) loss on sale of assets	48	(127)	63	15	15	-
Loss on extinguishment of debt	387	60	-	-	-	-
Bad debt adjustment	(37)	(274)	128	62	62	-
Loss (gain) on derivative instruments	(40)	22	(228)	(36)	(36)	-
Stock option expense	206	166	150	33	150	150
Deferred taxes	(496)	(1,166)	(1,552)	(48)	1,526	(149)
Cash earnings (loss)	9,270	10,995	11,517	3,208	15,393	18,863
<i>Changes in assets and liabilities</i>						
Accounts receivable	(695)	(3,987)	(444)	(4,125)	(1,197)	(2,327)
Inventory	(2,982)	340	402	(573)	(457)	(1,145)
Prepaid expenses and other assets	6	(1,292)	(1,766)	(444)	(1,169)	-
Accounts payable	(158)	1,330	(1,706)	3,476	327	821
Accrued and other liabilities	(360)	375	(194)	(32)	(174)	-
(Increase) decrease in working capital	(4,189)	(3,234)	(3,708)	(1,698)	(2,670)	(2,651)
<b>Net cash provided by (used in) operations</b>	<b>5,081</b>	<b>7,761</b>	<b>7,809</b>	<b>1,510</b>	<b>12,723</b>	<b>16,211</b>
Purchase of property and equipment	(3,566)	(3,362)	(4,140)	(1,726)	(5,200)	(5,000)
Proceeds from sale of property and equipment	74	2,187	52	8	8	-
Acquisition of Intasco	-	(21,031)	-	-	-	-
Working capital adjustment related to Intasco	-	213	-	-	-	-
Acquisition of Great Lakes Foam Technologies	(11,820)	-	-	-	-	-
Working capital adjustment related to Great Lakes Foam	(127)	-	-	-	-	-
<b>Net cash provided by (used in) investing</b>	<b>(15,439)</b>	<b>(21,993)</b>	<b>(4,088)</b>	<b>(1,718)</b>	<b>(5,192)</b>	<b>(5,000)</b>
Net change in bank overdraft	660	549	(38)	(399)	(399)	-
Proceeds from debt	-	32,000	-	-	-	-
Payments on term loans	(15,151)	(2,444)	(3,375)	(800)	(3,000)	(5,100)
Proceeds from revolving facilities	5,835	5,690	6,231	2,591	2,591	-
Debt issuance costs	-	(514)	-	-	-	-
Pay-off of old senior credit facility	-	(15,375)	-	-	-	-
Post acquisition payments for Unique Fabricating	(755)	-	-	-	-	-
Proceeds from issuance of common stock	25,674	-	-	-	-	-
Payment of initial public offering costs	(3,453)	-	-	-	-	-
Proceeds from exercise of stock options and warrants	397	116	37	30	30	30
Distribution of cash dividends	(2,878)	(5,812)	(5,850)	(1,465)	(5,860)	(5,860)
<b>Net cash provided by (used in) financing</b>	<b>10,329</b>	<b>14,210</b>	<b>(2,995)</b>	<b>(43)</b>	<b>(6,638)</b>	<b>(10,930)</b>
<b>Net change in cash</b>	<b>(29)</b>	<b>(21)</b>	<b>725</b>	<b>(251)</b>	<b>893</b>	<b>281</b>
<b>Cash - beginning of period</b>	<b>756</b>	<b>727</b>	<b>706</b>	<b>1,431</b>	<b>1,431</b>	<b>2,324</b>
<b>Cash - end of period</b>	<b>727</b>	<b>706</b>	<b>1,431</b>	<b>1,180</b>	<b>2,324</b>	<b>2,605</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



■ 32.43 % Buy    ■ 59.46 % Hold    ■ 6.76 % Not Rated    ■ 1.35 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	12
Hold		
Sell		
Not Rated		

### **Important Disclosures**

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of UFAB common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 476,467 shares of UFAB common stock and 10,587 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 494,694 shares of UFAB common stock and 8,663 warrants. Doug Hailey, Managing Director – Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 24,821 shares of UFAB common stock and 7,050 warrants. William Cook, Vice President – Investment Banking at Taglich Brothers, Inc. and a Director at Unique Fabricating, owns or has a controlling interest in 45,142 shares of UFAB common stock and 4,500 shares subject to exercisable options. Robert Schroeder, Vice President – Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 10,353 shares of UFAB common stock and 14,100 warrants. Richard Oh, Managing Director at Taglich Brothers, Inc. owns or has a controlling interest in 51,600 shares of UFAB common stock and 3,700 warrants. Other employees at Taglich Brothers, Inc. own or have controlling interests in 73,409 shares of UFAB common stock and 26,400 warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In March 2013, Taglich Brothers, Inc. arranged the equity financing for the Management Buyout of Unique Fabricating, Inc. In December 2013, Taglich Brothers, Inc. arranged the equity financing for UFAB's acquisition of Prescotech Industries, Inc. In July 2015, Taglich Brothers, Inc. served as the Joint Book Running Manager in the Initial Public Offering of common stock for the company.

All research issued by Taglich Brothers, Inc. is based on public information. Unique Fabricating, Inc. does not pay Taglich Brothers, Inc. for the creation and dissemination of research reports.

### **General Disclosures**

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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:

Fox Factory Holding (NASDAQ: FOXF)  
Gentherm (NASDAQ: THRM)  
Horizon Global (NYSE: HZN)  
Modine Manufacturing (NYSE: MOD)  
Motorcar Parts of America (NASDAQ: MPAA)  
Standard Motor Products (NYSE: SMP)  
Stoneridge (NYSE: SRI)  
Strattec Security (NASDAQ: STRT)  
Superior Industries International (NYSE: SUP)  
Tower International (NASDAQ: TOWR)

**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.