

## Research Report – Update

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

### UFP Technologies, Inc.

**Rating: Buy**

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March 22, 2019

**UFPT \$35.43 — (NASDAQ CM)**

	2017A	2018A	2019E	2020E
Revenues (millions)	\$147.81	\$190.5	\$200.0	\$211.0
Earnings per share (diluted)	\$1.26	\$1.93	\$2.13	\$2.65

52-Week range	\$39.98 – \$27.80	Fiscal year ends:	December
Shares outstanding as of 3/5/19	7.4 million	Revenue per share (TTM)	\$25.63
Approximate float	6.1 million	Price/Sales (TTM)	1.4X
Market capitalization	\$262 million	Price/Sales (2020)E	1.3X
Tangible book value/share	\$8.95	Price/Earnings (TTM)	18.4X
Price/tangible book	4.0X	Price/Earnings (2020)E	13.4X

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures components, subassemblies, products and packaging utilizing specialized foams, films, and plastics primarily for the medical market. ([www.ufpt.com](http://www.ufpt.com))

#### Key investment considerations:

**Reiterating Buy rating on UFP Technologies and maintaining our twelve-month price target of \$41.00 per share.**

**In 2018, the company made a strategic acquisition (Dielectrics) to grow its higher margin sales to the medical market. The acquisition resulted in the majority of UFPT's sales being generated from this growing market and added sales of \$36.2 million in 2018. Organic medical market growth was 5.7% in 2018.**

**We project continuing growth in the medical market will result in higher sales and margin expansion for the company through 2020. We project UFPT paying off its debt by the end of 1Q20 and generating close to \$20 million cash by December 31, 2020.**

**We project gross margins of 27% in 2020, up from an estimated 25.7% in 2019 and 25.4% in 2018.**

**4Q18 revenue (10K released on 3/15/19) increased 36.2% to \$50.7 million with EPS of \$0.59, up from \$0.37. We projected sales of \$48 million and EPS of \$0.58.**

**For 2019, we project 5% revenue growth to \$200 million (prior was \$204.4 million) and EPS of \$2.13 (prior was \$2.71). Our forecast reflects reduced demand from customers in the consumer market in 1Q19 due to excess year-end inventories.**

**For 2020, we project revenue growth of 5.5% to \$211 million and EPS of \$2.65. Our forecast reflects continued growth of the company's products for its medical market customers.**

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

**Recommendation and Valuation**

**Reiterating Buy rating on UFP Technologies and maintaining our twelve-month price target of \$41.00 per share.**

In 2018, the company made a strategic acquisition (Dielectrics) to grow its higher margin sales to the medical market, which resulted in the majority of UFPT’s sales being generated from this growing market. Dielectrics added sales of \$36.2 million in 2018 on top of 5.7% organic growth in UFPT’s sales within the medical market. We project growth in this market will result in higher sales and margin expansion for the company through 2020. We project the company paying off its debt by the end of 1Q20, as well as generating close to \$20 million cash by the end of 2020.

Shares of UFP Technologies trade at a forward multiple that is in line with its direct competitors (see chart below). With the acquisition of Dielectrics and continued strong growth in medical market sales, we project 24% EPS growth versus 9% for its competitors in 2020.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2020 P/E	Avg. Proj. EPS Growth to 2020
Packaging Corp of America	PKG	96.48	9,117	12.0	11.5	0%
Sealed Air	SEE	45.01	7,005	17.9	14.7	12%
Graphic Packaging	GPK	12.47	3,706	15.2	12.9	14%
Bemis	BMS	53.65	4,891	19.2	16.9	5%
Greif	GEF	40.31	2,060	10.9	9.6	13%
<b>Peer Average</b>				<b>15.1</b>	<b>13.1</b>	<b>9%</b>
Company						
<b>UFP Technologies</b>	<b>UFPT</b>	<b>35.43</b>	<b>262</b>	<b>18.4</b>	<b>13.4</b>	<b>24%</b>

Source: Taglich Brothers estimates, Thomson Reuters

We believe UFPT’s forward P/E multiple should expand above its competitors as strong earnings growth is recognized. We applied a multiple of 17X (unchanged) to our 2020 EPS projection of \$2.65, discounted to account for execution risk, to obtain a year-ahead value of approximately \$41.00 per share.

**Business**

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures components, subassemblies, products and packaging utilizing specialized foams, films, and plastics primarily for the medical market. The company’s single-use and single-patient devices and components are used in a wide range of medical devices, disposable wound care products, infection prevention, minimally invasive surgery, wearables, orthopedic soft goods, and orthopedic implant packaging.

UFP Technologies also provides engineered products and components to customers in the automotive, aerospace and defense, consumer, electronics and industrial markets. Typical applications of its products include military uniform and gear components, automotive interior trim, athletic padding, environmentally friendly protective packaging, air filtration, abrasive nail files, and protective cases and inserts.

Almost 60% of UFPT’s sales in 2018 were to the medical device industry with the remaining industries accounting for between 5.6% (industrial) to 13.1% (consumer) of sales.



Source: UFP Technologies

The company differentiates itself through the design and production of customized products. With its packaging design expertise, cleanroom fabrication capabilities, and access to an array of advanced medical grade materials, UFPT offers custom packaging solutions to medical device manufacturers that meet the stringent requirements of the medical industry (examples of the company's medical device packaging products are pictured at the bottom right on previous page).

### ***Industry Outlook***

The industry outlook discussion will focus on the medical market as UFPT's sales are predominantly to this end market.

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes, orthopedic implants, and other similar products. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years. IBISWorld forecasted medical device industry average annual sales growth of approximately 2.4% to \$44.1 billion in 2023 from 2019.

IBISWorld cited changing demographics in the US as being favorable to the industry. Although the majority of baby boomers are still under the age of 65, a significant portion of the group will cross this age threshold over the five years to 2023, resulting in annualized growth of 3.2% in the 65-and-over demographic. Medical innovations will continue to expand the average lifespan, with high-tech fields such as biotechnology and 3D printing likely enabling the development of new therapeutic and diagnostic product lines.

The future of the global medical device market looks to have expansion opportunities in public and private hospitals. ResearchandMarkets projects the global device market to reach an estimated \$409.5 billion by 2023, growing at a compound annual growth rate (CAGR) of 4.5% from 2018 to 2013. Similar to IBISWorld, ResearchandMarkets expects major drivers of this growth to be healthcare expenditures, technological developments, an aging population, and chronic diseases.

BCC Research estimates the global medical device market to grow from \$521.2 billion in 2017 to \$674.5 billion by 2022 for a CAGR of 5.3%. BCC Research reports stringent regulations as a key growth factor that is specific to the mature markets in the US and Europe. Regulations have compelled medical device manufacturers in those regions to launch sophisticated devices that incorporate new materials, provide in-depth indications, and generate new kinds of data. Clinical research continually demands more technically sophisticated medical devices in this highly competitive market. As such, companies are constantly reinventing their product portfolios to enter new markets and position themselves as major players in the healthcare system.

A growing end market for UFPT's products should bode well for sales through our forecast horizon.

### ***Economic Outlook***

Although the majority of the company's revenue is generated by sales to the medical market which are not significantly impacted by changes in the economy, approximately 40% is tied to economically sensitive end markets in the US. The economic outlook for this region could have an adverse effect on the company's sales through our forecast horizon.

In January 2019, the IMF lowered its global economic growth estimate to 3.5% for 2019 and 3.6% for 2020, down from its October 2018 estimate of 3.7% for both 2019 and 2020. The downward revision was due to a weakening global expansion. Weakening financial market sentiment, trade policy uncertainty, and concerns about China's outlook continue to weigh on the global economy.

The IMF kept its economic growth estimate for the US at 2.5% for 2019 and 1.8% for 2020. The softening in 2020 is due to the unwinding of fiscal stimulus.

The initial estimate of US GDP growth (released on February 28, 2019) showed the US economy grew at an annual rate of 2.6% in 4Q18, down from 3.4% in 3Q18. The 4Q18 US GDP growth estimate primarily reflects increases in consumer spending, business investment, exports, and inventory investment, partly offset by a decline in housing investment.

### **Competition**

The medical contract manufacturing industry is highly competitive as is the foam and plastics converting industry. While there are several national companies that convert foam and plastics, the company's primary competition is from smaller independent regional manufacturing companies that generally market their products in specific geographic areas from neighboring facilities.

UFPT's foam and fiber packaging products 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 custom engineered products face competition primarily from smaller companies that typically concentrate on production of products for specific industries.

Some of UFPT's strengths in the engineered products market are its ability to address its customers' primary vendor selection criteria, including price, product performance, product reliability, and customer service. Other competitive factors include the company's access to a wide variety of materials, its engineering expertise, and its ability to combine foams with other materials such as plastics and laminates.

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	\$6.0B (12/18)	16.0%
Packaging Corp. of America	\$7.0B (12/18)	23.5%
Greif	\$3.9B (1/19)	20.4%
Bemis Company	\$4.1B (12/18)	19.7%
Sealed Air Corp.	\$4.7B (12/18)	31.7%
UFP Technologies	\$190.5M (12/18)	25.4%

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**

The company's February 2018 acquisition of Dielectrics added \$36.2 million to UFPT's 2018 sales to the medical market. A full year's contribution from Dielectrics and a growing medical market should help UFPT's sales continue their upward trend in 2019. The increase in high margin medical sales should boost margins through our forecast horizon.

#### 2019 Forecast

For 2019, we project revenue growth of 5% to \$200 million and net income of \$15.9 million or \$2.13 per share. We previously forecast revenue of \$204.4 million and EPS of \$2.71. Our forecast reflects reduced demand from customers in the consumer market in 1Q19 due to excess year-end inventories in 2018.

We project gross margins increasing to 25.7% from 25.4% in 2018, as higher margin medical sales continue to grow. SG&A expenses should increase to \$29.4 million from \$27.8 million due primarily to increased compensation costs. SG&A margins should increase to 14.7% from 14.6% in 2018. We project operating income growth of 11.2% to \$22 million with margins increasing to 11% from 10.3%. Our tax rate forecast is 26%.

In 2019, we project \$27.2 million cash from operations from cash earnings of \$25 million and a \$2.2 million decrease in working capital primarily due to increased payables. We project a \$557,000 increase in cash to \$3.8 million at the end of 2019 after debt repayments of \$22.3 million and \$5.5 million of capital expenditures.

#### 2020 Forecast

For 2020, we project revenue growth of 5.5% to \$211 million and net income of \$19.8 million or \$2.65 per share. Our forecast reflects continued growth of the company's product offerings for its medical market customers.

We project gross margins increasing to 27% from our projected 25.7% in 2018 as higher margin medical sales continue to grow as a percentage of total sales. SG&A expenses should increase to \$30.2 million from our projected \$29.4 million in 2019 due primarily to increased compensation costs. SG&A margins should decrease to 14.3% from 14.7% in 2019. We project operating income growth of 21.8% to \$26.8 million with margins increasing to 12.7% from 11%. Our tax rate forecast is 26%.

In 2020, we project \$27.1 million cash from operations from cash earnings of \$28.8 million and a \$1.7 million decrease in working capital primarily due to increased receivables. We project a \$19.8 million increase in cash to \$23.7 million at the end of 2020 after debt repayments of \$2.9 million and \$5.5 million of capital expenditures.

#### ***4Q and FY 2018 Financial Results***

***4Q18*** - Sales increased 36.2% to \$50.7 million with net income of \$4.4 million or \$0.59 per share, up from \$2.7 million or \$0.37 per share. We projected sales of \$48 million and net income of \$4.3 million or \$0.58 per share.

The increase in sales was primarily due to an \$11 million contribution from Dielectrics. Organic sales (excluding Dielectrics) grew 6.6% to \$39.7 million. Sales to customers in the medical market grew 71.5%, sales to customers in the aerospace and defense market grew 14%, and sales to customers in the consumer, electronics and industrial markets grew 7.4%. The increase in sales to these markets was partially offset by a 1.6% decrease in sales to customers in the automotive market.

Gross profit increased to \$12.7 million from \$7.8 million and gross margins increased to 25.1% from 21.1%. SG&A expenses increased to \$7.2 million from \$5.8 million. Operating income increased to \$5.5 million or 10.8% of sales from \$2.1 million or 5.5% of sales.

Non-operating expense was \$358,000 compared to income of \$58,000. Interest expense was \$285,000 versus income of \$58,000 and other expense was \$73,000 versus nil in the year-ago period. The increase in interest expense was primarily due to the debt incurred to finance the acquisition of Dielectrics. The company had an effective income tax rate of 14.1%.

***FY 2018*** - Sales increased 28.8% to \$190.5 million with net income of \$14.3 million or \$1.93 per share, up from \$9.2 million or \$1.26 per share. Net income in 2018 included \$1.1 million of costs related to the February 2018 acquisition of Dielectrics.

The increase in sales was primarily due to a \$36.2 million contribution from Dielectrics. Sales to customers in the medical, aerospace and defense, and consumer markets grew 57.3%, 14%, and 17.2%, respectively, while sales to customers in the automotive market declined 13.4%. The increase in sales to customers in the medical market was primarily due to the Dielectrics acquisition as well as a 5.8% increase in demand from the company's legacy medical customers. The increase in sales to customers in the aerospace and defense market was largely due to a general uptick in government contract-based orders. The increase in sales to customers in the consumer market was primarily due to sales of molded fiber protective packaging to a new customer. The decline in sales to customers in the automotive market was primarily due to the phase-out of the automotive door panel program for Mercedes-Benz.

Gross profit increased to \$48.3 million from \$35.5 million due primarily to sales growth and gross margin expansion to 25.4% from 24%. The increase in gross margins was primarily due to gains in manufacturing efficiencies and strategic price increases. SG&A expenses increased to \$27.8 million from \$23.8 million due primarily to the acquisition of Dielectrics, as well as higher health care costs. Operating income increased to \$19.6 million from \$11.7 million in 2017. Operating margins increased to 10.3% compared to 7.9% in the year ago period.

Non-operating expense was \$1.2 million versus income of \$166,000. 2018 includes interest expense of \$1.3 million compared to income of \$166,000 in the year ago period. Other income was \$64,000 versus nil in 2017. The increase in interest expense was primarily due to the debt incurred to finance the acquisition of Dielectrics. The company had an effective income tax rate of 22.2%.

### *Liquidity*

At December 31, 2018, the company had \$3.2 million cash, a current ratio of 2.7X, tangible equity of \$66.4 million, and \$25.1 million of debt for a debt to tangible equity ratio of approximately 0.4X.

2018 cash provided by operations of \$21.3 million consisted of \$25.2 million in cash earnings and a \$3.9 million increase in working capital. The increase in working capital was primarily due to an increase in receivables and inventories, offset in part by an increase in payables and accruals. The acquisition of Dielectrics resulted in a \$25.1 million net increase in debt. Cash decreased by \$34.7 million to \$3.2 million at December 31, 2018.

On February 1, 2018, the company entered into an unsecured \$70 million amended and restated credit agreement with Bank of America that matures on February 1, 2023. The credit facilities consist of a \$20 million term loan and a \$50 million revolving credit facility at an interest rate of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from .25% to zero.

Under the restated credit agreement, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. As of December 31, 2018, the applicable interest rate was 3.52% and the company was in compliance with all covenants.

### ***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 29% of total revenues in 2018. The loss of sales to a large customer would have a material adverse effect on projected financial results.

#### 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 7.4 million shares outstanding and 6.1 million in the float, liquidity issues must be considered. Average daily volume has been approximately 18,000 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>2016A</u>	<u>2017A</u>	<u>2018A</u>	<u>2019E</u>	<u>2020E</u>
Cash and cash equivalents	31,359	37,978	3,238	3,815	23,663
Receivables	21,249	21,381	28,321	32,222	33,994
Inventories	14,151	12,863	19,576	20,497	21,244
Prepaid expenses	2,281	1,835	2,206	2,206	2,206
Refundable income taxes	<u>807</u>	<u>1,017</u>	<u>2,285</u>	<u>2,285</u>	<u>2,285</u>
Total current assets	69,847	75,074	55,626	61,025	83,392
Net property, plant and equipment	48,516	53,652	57,667	51,515	50,664
Goodwill	7,322	7,322	51,838	51,838	51,838
Intangible assets	318	-	22,232	20,975	19,718
Other assets	<u>1,931</u>	<u>2,159</u>	<u>2,235</u>	<u>2,235</u>	<u>2,235</u>
<b>Total assets</b>	<b><u>127,934</u></b>	<b><u>138,207</u></b>	<b><u>189,598</u></b>	<b><u>187,588</u></b>	<b><u>207,847</u></b>
Current portion of long-term debt	856	-	2,857	2,857	-
Deferred revenue	-	297	2,507	2,507	2,507
Accounts payable	4,002	4,180	6,836	8,256	8,557
Accrued expenses	<u>4,698</u>	<u>5,466</u>	<u>8,458</u>	<u>8,882</u>	<u>9,370</u>
Total current liabilities	9,556	9,943	20,658	22,502	20,434
Long-term debt	-	-	22,286	-	-
Deferred income taxes	3,459	2,440	4,129	4,129	4,129
Other liabilities	<u>1,866</u>	<u>2,112</u>	<u>2,068</u>	<u>2,068</u>	<u>2,068</u>
<b>Total liabilities</b>	<b><u>14,881</u></b>	<b><u>14,495</u></b>	<b><u>49,141</u></b>	<b><u>28,699</u></b>	<b><u>26,631</u></b>
<b>Total stockholders' equity</b>	<b><u>113,053</u></b>	<b><u>123,712</u></b>	<b><u>140,457</u></b>	<b><u>158,890</u></b>	<b><u>181,216</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>127,934</u></b>	<b><u>138,207</u></b>	<b><u>189,598</u></b>	<b><u>187,588</u></b>	<b><u>207,847</u></b>

Source: Company filings and Taglich Brothers' estimates



UFP Technologies, Inc.

Annual Income Statements  
(in thousands \$)

	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	<u>2019E</u>	<u>2020E</u>
Net sales	146,132	147,842	190,455	200,000	211,000
Cost of sales	<u>111,482</u>	<u>112,355</u>	<u>142,147</u>	<u>148,605</u>	<u>154,018</u>
Gross profit	34,650	35,487	48,308	51,395	56,983
Extraordinary items	(1,692)	(51)	938	-	-
SG&A	<u>24,105</u>	<u>23,845</u>	<u>27,758</u>	<u>29,400</u>	<u>30,200</u>
Operating income	12,237	11,693	19,612	21,995	26,783
Non-operating (expenses) income	<u>80</u>	<u>166</u>	<u>(1,209)</u>	<u>(500)</u>	<u>(25)</u>
Income before taxes	12,317	11,859	18,403	21,495	26,758
Income tax (benefit)	<u>4,347</u>	<u>2,649</u>	<u>4,092</u>	<u>5,589</u>	<u>6,957</u>
Net Income / (Loss)	<u>7,970</u>	<u>9,210</u>	<u>14,311</u>	<u>15,906</u>	<u>19,801</u>
EPS	<u>1.10</u>	<u>1.26</u>	<u>1.93</u>	<u>2.13</u>	<u>2.65</u>
Shares Outstanding	7,275	7,337	7,430	7,470	7,470
<u>Margin Analysis</u>					
Gross margin	23.7%	24.0%	25.4%	25.7%	27.0%
SG&A	16.5%	16.1%	14.6%	14.7%	14.3%
Operating margin	8.4%	7.9%	10.3%	11.0%	12.7%
Pretax margin	8.4%	8.0%	9.7%	10.7%	12.7%
Tax rate	35.3%	22.3%	22.2%	26.0%	26.0%
<u>Year / Year Growth</u>					
Total Revenues	5.2%	1.2%	28.8%	5.0%	5.5%
Net Income	5.0%	15.6%	55.4%	11.1%	24.5%
EPS	4.2%	14.6%	53.4%	10.6%	24.5%

UFP Technologies, Inc.

Quarterly Income Statements 2018A - 2020E  
(in thousands \$)

	<u>3/18A</u>	<u>6/18A</u>	<u>9/18A</u>	<u>12/18A</u>	<u>2018A</u>	<u>3/19E</u>	<u>6/19E</u>	<u>9/19E</u>	<u>12/19E</u>	<u>2019E</u>	<u>3/20E</u>	<u>6/20E</u>	<u>9/20E</u>	<u>12/20E</u>	<u>2020E</u>
Net sales	42,931	49,019	47,808	50,697	190,455	45,100	51,500	51,600	51,800	<b>200,000</b>	52,000	52,500	53,000	53,500	<b>211,000</b>
Cost of sales	<u>32,746</u>	<u>36,033</u>	<u>35,377</u>	<u>37,991</u>	<u>142,147</u>	<u>33,825</u>	<u>38,265</u>	<u>38,236</u>	<u>38,280</u>	<b><u>148,605</u></b>	<u>38,350</u>	<u>38,456</u>	<u>38,558</u>	<u>38,654</u>	<b><u>154,018</u></b>
Gross profit	10,185	12,986	12,431	12,706	48,308	11,275	13,236	13,364	13,520	<b>51,395</b>	13,650	14,044	14,443	14,846	<b>56,983</b>
Extraordinary items	1,029	(100)	5	4	938	-	-	-	-	-	-	-	-	-	-
SG&A	<u>6,592</u>	<u>7,417</u>	<u>6,541</u>	<u>7,208</u>	<u>27,758</u>	<u>7,000</u>	<u>7,450</u>	<u>7,450</u>	<u>7,500</u>	<b><u>29,400</u></b>	<u>7,500</u>	<u>7,550</u>	<u>7,550</u>	<u>7,600</u>	<b><u>30,200</u></b>
Operating income	2,564	5,669	5,885	5,494	19,612	4,275	5,786	5,914	6,020	<b>21,995</b>	6,150	6,494	6,893	7,246	<b>26,783</b>
Non-operating (expenses) income	<u>(198)</u>	<u>(394)</u>	<u>(258)</u>	<u>(358)</u>	<u>(1,209)</u>	<u>(200)</u>	<u>(150)</u>	<u>(100)</u>	<u>(50)</u>	<b><u>(500)</u></b>	<u>(25)</u>	-	-	-	<b><u>(25)</u></b>
Income before taxes	2,366	5,275	5,627	5,136	18,403	4,075	5,636	5,814	5,970	<b>21,495</b>	6,125	6,494	6,893	7,246	<b>26,758</b>
Income tax (benefit)	<u>589</u>	<u>1,285</u>	<u>1,493</u>	<u>726</u>	<u>4,092</u>	<u>1,060</u>	<u>1,465</u>	<u>1,512</u>	<u>1,552</u>	<b><u>5,589</u></b>	<u>1,593</u>	<u>1,688</u>	<u>1,792</u>	<u>1,884</u>	<b><u>6,957</u></b>
Net Income / (Loss)	<u>1,777</u>	<u>3,990</u>	<u>4,134</u>	<u>4,410</u>	<u>14,311</u>	<u>3,016</u>	<u>4,170</u>	<u>4,303</u>	<u>4,418</u>	<b><u>15,906</u></b>	<u>4,533</u>	<u>4,805</u>	<u>5,100</u>	<u>5,362</u>	<b><u>19,801</u></b>
EPS	<u>0.24</u>	<u>0.54</u>	<u>0.56</u>	<u>0.59</u>	<u>1.93</u>	<u>0.40</u>	<u>0.56</u>	<u>0.58</u>	<u>0.59</u>	<b><u>2.13</u></b>	<u>0.61</u>	<u>0.64</u>	<u>0.68</u>	<u>0.72</u>	<b><u>2.65</u></b>
Shares Outstanding	7,378	7,413	7,435	7,464	7,430	7,470	7,470	7,470	7,470	<b>7,470</b>	7,470	7,470	7,470	7,470	<b>7,470</b>
<u>Margin Analysis</u>															
Gross margin	23.7%	26.5%	26.0%	25.1%	25.4%	25.0%	25.7%	25.9%	26.1%	<b>25.7%</b>	26.3%	26.8%	27.3%	27.8%	<b>27.0%</b>
SG&A	15.4%	15.1%	13.7%	14.2%	14.6%	15.5%	14.5%	14.4%	14.5%	<b>14.7%</b>	14.4%	14.4%	14.2%	14.2%	<b>14.3%</b>
Operating margin	6.0%	11.6%	12.3%	10.8%	10.3%	9.5%	11.2%	11.5%	11.6%	<b>11.0%</b>	11.8%	12.4%	13.0%	13.5%	<b>12.7%</b>
Pretax margin	5.5%	10.8%	11.8%	10.1%	9.7%	9.0%	10.9%	11.3%	11.5%	<b>10.7%</b>	11.8%	12.4%	13.0%	13.5%	<b>12.7%</b>
Tax rate	24.9%	24.4%	26.5%	14.1%	22.2%	26.0%	26.0%	26.0%	26.0%	<b>26.0%</b>	26.0%	26.0%	26.0%	26.0%	<b>26.0%</b>
<u>Year / Year Growth</u>															
Total Revenues	15.9%	29.4%	34.0%	36.2%	28.8%	5.1%	5.1%	7.9%	2.2%	<b>5.0%</b>	15.3%	1.9%	2.7%	3.3%	<b>5.5%</b>
Net Income	(18.1)%	51.7%	143.9%	62.4%	55.4%	69.7%	4.5%	4.1%	0.2%	<b>11.1%</b>	50.3%	15.2%	18.5%	21.4%	<b>24.5%</b>
EPS	(19.0)%	49.9%	141.2%	60.4%	53.4%	67.6%	3.7%	3.6%	0.1%	<b>10.6%</b>	50.3%	15.2%	18.5%	21.4%	<b>24.5%</b>

Source: Company filings and Taglich Brothers' estimates

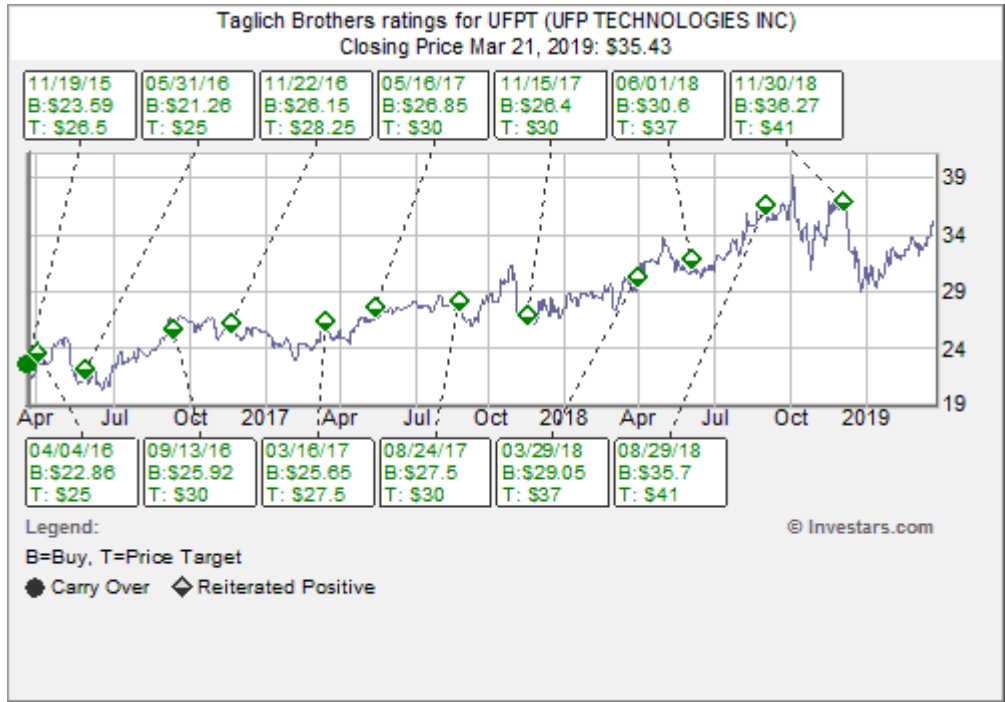
UFP Technologies, Inc.

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

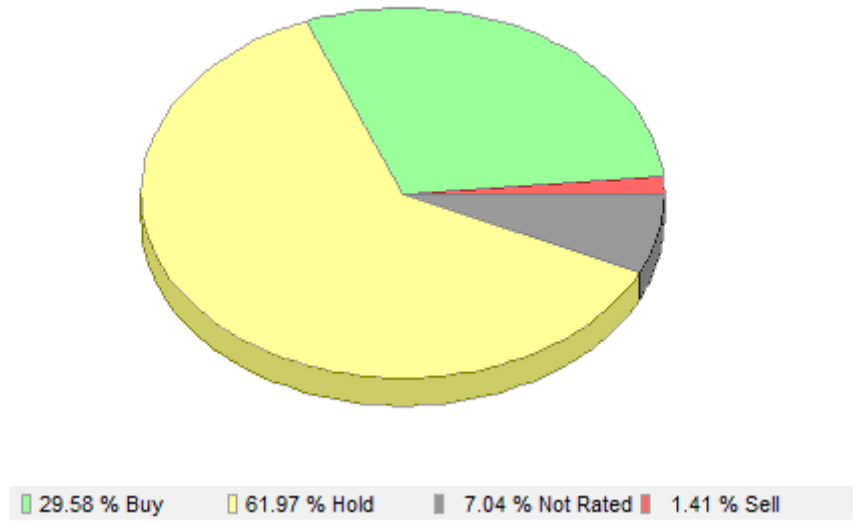
	2016A	2017A	2018A	2019E	2020E
Net income	7,970	9,210	14,311	15,906	19,801
Depreciation & amortization	5,634	5,635	7,831	7,722	7,608
(Gain) loss on disposal of property, plant and equipment	2	7	(47)	-	-
Share-based compensation	1,056	1,068	1,212	1,400	1,400
Excess tax benefit on share-based compensation	(145)	-	-	-	-
Deferred income taxes	576	(1,019)	1,881	-	-
Cash earnings	15,093	14,901	25,188	25,028	28,809
<i>Changes in assets and liabilities</i>					
Receivables	(3,768)	(132)	(2,556)	(1,308)	(1,772)
Inventories	51	1,288	(2,295)	(921)	(747)
Prepaid expenses	(1,351)	446	(249)	-	-
Refundable income taxes	209	(210)	(1,268)	-	-
Other assets	(97)	(228)	(76)	-	-
Accounts payable	(683)	93	1,113	2,717	301
Accrued expenses and other	(361)	1,065	1,472	1,721	489
Deferred revenue	-	-	35	-	-
Retirement and other liabilities	213	246	(44)	-	-
(Increase) decrease in working capital	(5,787)	2,568	(3,868)	2,209	(1,730)
<b>Net Cash Provided by Operations</b>	<b>9,306</b>	<b>17,469</b>	<b>21,320</b>	<b>27,237</b>	<b>27,079</b>
Additions to property, plant and equipment	(7,206)	(10,382)	(5,428)	(5,500)	(5,500)
Cash paid for acquisitions (net)	-	-	(76,978)	-	-
Proceeds from sale of fixed assets	14	7	77	-	-
<b>Net Cash Used in Investing</b>	<b>(7,192)</b>	<b>(10,375)</b>	<b>(82,329)</b>	<b>(5,500)</b>	<b>(5,500)</b>
Proceeds from line of credit	-	-	36,000	-	-
Payments on line of credit	-	-	(28,000)	(17,143)	-
Proceeds from long-term borrowings	-	-	20,000	-	-
Repurchases of common stock	-	-	-	-	-
Tax benefit from exercise of non-qualified stock options	145	-	-	-	-
Proceeds from exercise of stock options	529	677	1,270	1,270	1,270
Payment of statutory withholdings for stock options exercised	(219)	(296)	(144)	(144)	(144)
Principal repayments of long-term debt	(1,014)	(856)	(2,857)	(5,143)	(2,857)
<b>Net Cash Provided by (Used in) Financing</b>	<b>(559)</b>	<b>(475)</b>	<b>26,269</b>	<b>(21,160)</b>	<b>(1,731)</b>
<b>Net Change in Cash</b>	<b>1,555</b>	<b>6,619</b>	<b>(34,740)</b>	<b>577</b>	<b>19,848</b>
<b>Cash - Beginning of Period</b>	<b>29,804</b>	<b>31,359</b>	<b>37,978</b>	<b>3,238</b>	<b>3,815</b>
<b>Cash - End of Period</b>	<b>31,359</b>	<b>37,978</b>	<b>3,238</b>	<b>3,815</b>	<b>23,663</b>

Source: Company filings and Taglich Brothers' estimates

**Price Chart**



**Taglich Brothers' Current Ratings Distribution**



<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	2	8
Hold		
Sell		
Not Rated	2	50

### **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.