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Research Report- Update

Buy

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UFP Technologies, Inc.

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Ticker: UFPT--\$2.56 (NASDAQ)

	<u>FY1997</u>	<u>FY1998</u>	<u>FY1999A</u>	<u>FY2000E</u>	<u>FY2001E</u>
Revenues (millions)	\$45.5	\$47.2	\$58.8	\$74.2	\$79.5
Earnings per share	\$0.27	\$0.34	\$0.35	\$0.36	\$0.48
P/E Ratio	---	---	---	7.1x	5.3x

52-Week Range	4.75—2.25	ROE (FY2000E)	9.5%
Shares Outstanding-fully diluted	4.5 million	Fiscal Year Ends	December
Approximate Float (shares)	1.2 million	Sales per share (FY2000E)	\$16.60
Institutional Holdings	2.0%	Price/Sales (FY2000E)	0.15x
Insider Holdings	43.5%	Current Price/Hard Book	1.39x

UFP Technologies is a leading U.S. manufacturer of custom-designed cushion foam packaging and specialty foam packaging products and engineered specialty foam and laminated products. The company is the North American leader in 100% recycled molded-fiber packaging products that offer an environmentally responsible alternative to plasti-based packaging products in the high-volume consumer packaging market.

Key investment considerations:

- **Revenues in the first quarter were \$18.2 million, with earnings of \$0.05 per share, versus \$13.5 million and \$0.06 in Q1 last year. The results were higher than our estimates of \$17.5 million and \$0.02 per share. The company stated that operational improvement at its recent acquisition has been occurring at a more rapid pace than originally anticipated.**
- **Specialty foam products have grown in stature and we expect revenues from this segment to account for more than half of total revenues this year for the first time. Recent new contracts and the Simco acquisition have positioned UFPT in the large automotive specialty foam market.**
- **We see earnings momentum starting in the second half of this year, with \$0.23 in earnings per share in the third and fourth quarter. We are maintaining our buy rating on the shares of UFPT. Our twelve to fifteen month price target is \$5.00 to \$6.00 per share, which is 12.0x to 13.0x our 2001 mid-point earnings and values the company at 5.0x Total Enterprise Value to EBITDA.**

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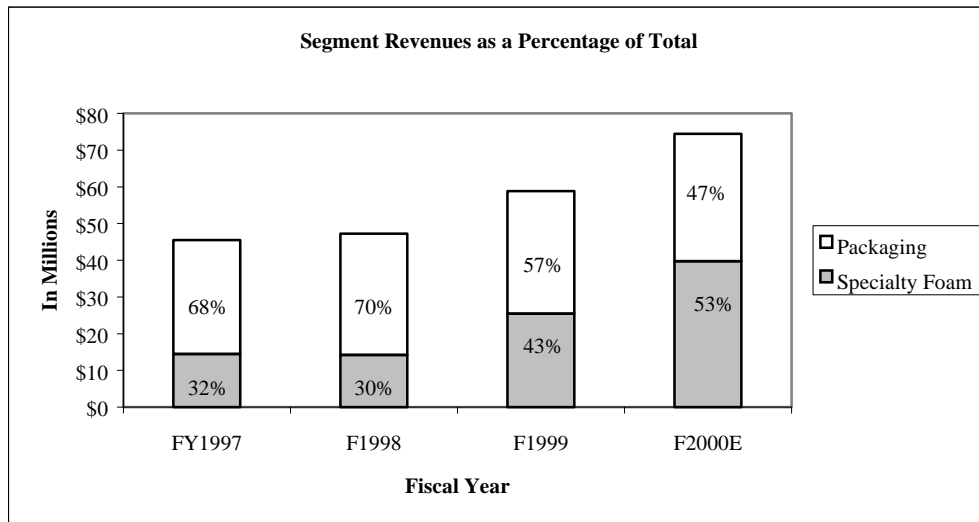
Recent Results

Revenues in the first quarter were \$18.2 million, versus \$13.5 million in Q1 last year, an increase of 36% and higher than our estimates of \$17.5 million. The first quarter reflects the addition of revenues from Simco, acquired in the middle of January. Excluding Simco, revenues increased in both packaging and specialty foam segments in the first quarter over the previous year. Revenues in packaging were \$8.2 million, about a 9% increase from last year, representing general overall growth in that segment. Specialty Foam revenues were approximately \$10.0 million in the quarter, versus \$5.9 million in Q1 last year, with Simco probably accounting for an estimated \$2 to \$2.5 million. Specialty also saw growth from the new automotive foam contract for the Taurus and Sable programs that began late last year.

In Q1 UFPT had net earnings of \$218 thousand, or \$0.05 per share, versus \$291 thousand, or \$0.06 per share, last year and beating our estimates of \$0.02 per share. We had anticipated that the integration of Simco would negatively impact earnings in the first half of his year. However, the company stated that operational improvement has been occurring at a more rapid pace than originally anticipated. Earnings per share in the latest quarter benefited from a lower share count that was the result of a recent stock repurchase, somewhat offset by a higher tax rate.

Business Trend

The company has been pursuing a strategy of penetrating new market segments and expanding product capabilities to internally grow molded fiber packaging. Conversely, UFPT has been pursuing strategic acquisitions in foam companies, where raw material costs are much higher, that add geographic presence, new technologies and improve operating efficiencies. This has been somewhat the case in foam packaging and particularly so in specialty foam. The chart below demonstrates the trend in revenue between total packaging and specialty foam. As the trend suggests specialty foam products have grown in stature and we expect revenues from this segment to account for more than half of revenues this year for the first time. Recent new contracts and the Simco acquisition have positioned UFPT in the large automotive specialty foam market that offers steady revenues from potentially larger, longer-term contracts. This segment now possesses increased capabilities and expertise, a larger number of foam products and new automotive customers.



Projections

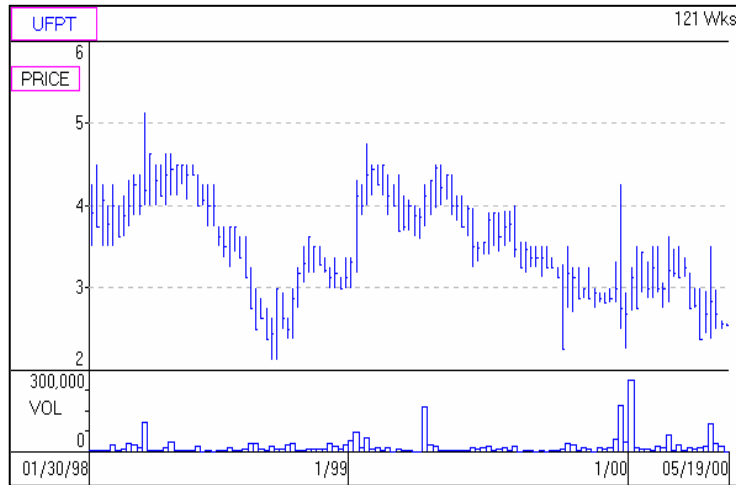
We are fine tuning our estimates for this fiscal year, projecting revenues of \$74.2 million and earnings per share of \$0.36 for 2000. Our EPS estimate remains the same overall, but we have slightly decreased earnings in the second half of the year, partially due to higher taxes. We project an overall tax rate of about 43%, reflecting the nondeductible goodwill from Simco. We project EBITDA of about \$6.7 million in 2000, an increase of 20% from 1999.

We are leaving our revenue estimates for 2001 unchanged with \$79.4 million, accompanied by EBITDA of \$7.6 million. We have decreased our earnings per share estimates by \$0.01, to \$0.48, to reflect slightly higher estimated taxes.

Outlook

We see earnings momentum starting in the second half of this year, with \$0.23 in earnings per share in the third and fourth quarter. We are maintaining our buy rating on the shares of UFPT. Our twelve to fifteen month price target is \$5.00 to \$6.00 per share which is 12.0x to 13.0x our 2001 mid-point earnings and values the company at 5.0x Total Enterprise Value to EBITDA.

Chart Courtesy Quotron Systems.



UFP Technologies, Inc.
Yearly Income Statement Model
(In Thousands)

	<u>F1996A</u>	<u>F1997A</u>	<u>F1998A</u>	<u>F1999A</u>	<u>F2000E</u>	<u>F2001E</u>
Packaging Revenues	\$ 23,717	\$ 30,987	\$ 33,001	\$ 33,339	\$ 34,829	\$ 37,615
Specialty Revenues	<u>15,642</u>	<u>14,465</u>	<u>14,218</u>	<u>25,462</u>	<u>39,354</u>	<u>41,867</u>
Total Revenues	\$ 39,359	45,452	47,220	58,802	74,183	79,483
Costs of Goods Sold	<u>29,447</u>	<u>33,200</u>	<u>34,140</u>	<u>43,939</u>	<u>56,007</u>	<u>60,203</u>
Gross Profit	9,912	12,252	13,080	14,863	18,176	19,280
<i>Gross Margins</i>	<i>25.18%</i>	<i>26.96%</i>	<i>27.70%</i>	<i>25.28%</i>	<i>24.50%</i>	<i>24.26%</i>
S,G&A	<u>7,818</u>	<u>9,318</u>	<u>9,906</u>	<u>11,562</u>	<u>14,238</u>	<u>14,500</u>
Operating Income	2,094	2,934	3,174	3,301	3,938	4,780
<i>Operating Margin</i>	<i>5.32%</i>	<i>6.46%</i>	<i>6.72%</i>	<i>5.61%</i>	<i>5.31%</i>	<i>6.01%</i>
Interest Expense-net	426	630	447	640	1,124	1,025
Other-net	<u>-</u>	<u>-</u>	<u>(60)</u>	<u>(169)</u>	<u>-</u>	<u>-</u>
Pre-Tax Income	1,668	2,304	2,787	2,830	2,814	3,755
<i>Pre-Tax Margins</i>	<i>4.24%</i>	<i>5.07%</i>	<i>5.90%</i>	<i>4.81%</i>	<i>3.79%</i>	<i>4.72%</i>
Taxes (Benefit)	<u>406</u>	<u>995</u>	<u>1,141</u>	<u>1,136</u>	<u>1,217</u>	<u>1,598</u>
<i>Tax Rate</i>	<i>24.34%</i>	<i>43.19%</i>	<i>40.94%</i>	<i>40.14%</i>	<i>43.27%</i>	<i>42.56%</i>
Net Income	<u>\$ 1,262</u>	<u>\$ 1,309</u>	<u>\$ 1,646</u>	<u>\$ 1,694</u>	<u>\$ 1,596</u>	<u>\$ 2,157</u>
EPS-fully diluted	<u>\$0.26</u>	<u>\$ 0.27</u>	<u>\$ 0.34</u>	<u>\$ 0.35</u>	<u>\$ 0.36</u>	<u>\$ 0.48</u>
Avg. Shares Out-fully diluted	<u>4,874</u>	<u>4,863</u>	<u>4,819</u>	<u>4,896</u>	<u>4,475</u>	<u>4,500</u>
<u>Percent of Revenue</u>						
Costs of Goods Sold	74.82%	73.04%	72.30%	74.72%	75.50%	75.74%
SG&A	19.86%	20.50%	20.98%	19.66%	19.19%	18.24%
Net Margin	3.21%	2.88%	3.49%	2.88%	2.15%	2.71%
<u>Year / Year Growth</u>						
Total Revenues	15.44%	15.48%	3.89%	24.53%	26.16%	7.14%
Operating Income	91.23%	40.11%	8.18%	4.00%	19.29%	21.39%
Pre-Tax Income	154.66%	38.13%	20.96%	1.54%	-0.58%	33.45%
Net Income	42.28%	3.72%	25.74%	2.92%	-5.77%	35.13%

Total Debt-net of Cash					\$ 15,460	\$ 13,209
Market Capitalization					<u>11,467</u>	<u>11,531</u>
Total Enterprise Value (TEV)					<u>\$ 26,928</u>	<u>\$ 24,741</u>
EBITDA	<u>\$ 3,592</u>	<u>\$ 4,736</u>	<u>\$ 5,074</u>	<u>\$ 5,601</u>	<u>\$ 6,765</u>	<u>\$ 7,580</u>
<i>Year / Year Growth</i>	<i>53.7%</i>	<i>31.8%</i>	<i>7.1%</i>	<i>10.4%</i>	<i>20.8%</i>	<i>12.1%</i>
TEV / EBITDA Multiple					3.98	3.26
Share Price @ 5.0X TEV / EBITDA					\$4.10	\$5.49
Share Price @ 6.0X TEV / EBITDA					\$5.62	\$7.17
Share Price @ 7.0X TEV / EBITDA					\$7.13	\$8.86
Share Price @ 8.0X Earnings					\$2.86	\$3.83
Share Price @ 10.0X Earnings					\$3.57	\$4.79
Share Price @ 12.0X Earnings					\$4.28	\$5.75

UFP Technologies, Inc.
Fiscal 2000 Income Statement Model
(In Thousands)

	<u>Q1A</u>	<u>Q2E</u>	<u>Q3E</u>	<u>Q4E</u>	<u>F2000E</u>	<u>F2001E</u>
Packaging Revenues	\$ 8,229	\$ 9,000	\$ 9,000	\$ 8,600	\$ 34,829	\$ 37,615
Specialty Revenues	10,054	9,600	9,800	9,900	39,354	41,867
Total Revenues	18,283	18,600	18,800	18,500	74,183	79,483
Costs of Goods Sold	13,981	14,098	14,153	13,775	56,007	60,203
Gross Profit	4,303	4,502	4,647	4,725	18,176	19,280
<i>Gross Margins</i>	23.54%	24.20%	24.72%	25.54%	24.50%	24.26%
S,G&A	3,613	3,550	3,525	3,550	14,238	14,500
Operating Income	690	952	1,122	1,175	3,938	4,780
<i>Operating Margin</i>	3.77%	5.12%	5.97%	6.35%	5.31%	6.01%
Interest Expense-net	294	285	275	270	1,124	1,025
Other-net	-	-	-	-	-	-
Pre-Tax Income	396	667	847	905	2,815	3,755
<i>Pre-Tax Margins</i>	2.17%	3.58%	4.50%	4.89%	3.79%	4.72%
Taxes (Benefit)	178	291	363	386	1,217	1,598
<i>Tax Rate</i>	44.95%	43.60%	42.83%	42.65%	43.25%	42.56%
Net Income	\$ 218	\$ 376	\$ 484	\$ 519	\$ 1,597	\$ 2,157
EPS-fully diluted	<u>\$ 0.05</u>	<u>\$ 0.08</u>	<u>\$ 0.11</u>	<u>\$ 0.12</u>	<u>\$ 0.36</u>	<u>\$ 0.48</u>
Avg. Shares Out-fully diluted	4,390	4,500	4,500	4,500	4,475	4,500
<u>Percent of Revenue</u>						
Costs of Goods Sold	76.47%	75.80%	75.28%	74.46%	75.50%	75.74%
SG&A	19.76%	19.09%	18.75%	19.19%	19.19%	18.24%
Net Margin	1.19%	2.02%	2.58%	2.81%	2.15%	2.71%
<u>Year / Year Growth</u>						
Packaging Revenues	8.95%	1.59%	9.78%	-1.48%	4.47%	8.00%
Specialty Revenues	69.77%	59.07%	57.00%	36.31%	54.56%	6.39%
Total Revenues	35.67%	24.88%	30.19%	15.68%	26.16%	7.14%
Operating Income	11.83%	3.12%	68.96%	7.11%	19.29%	21.39%
Pre-Tax Income	-19.84%	-9.03%	69.04%	-17.88%	-0.54%	33.40%
Net Income	-25.09%	-14.72%	60.84%	-21.48%	-5.71%	35.04%