

Research Report – Update

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

UFP Technologies, Inc.

Rating: Speculative Buy

John Nobile
August 23, 2012

UFPT \$17.08 — (NASDAQ CM)

	2010A	2011A	2012E	2013E
Revenues (millions)	\$120.8	\$127.2	\$131.9	\$140.0
Earnings per share (diluted)	\$1.37	\$1.48	\$1.46	\$1.69

52-Week range	\$19.96 – \$12.65	Fiscal year ends:	December
Shares outstanding as of 8/2/12	6.7 million	Revenue per share (TTM)	\$18.20
Approximate float	5.1 million	Price/Sales (TTM)	0.9X
Market capitalization	\$114 million	Price/Sales (2013)E	0.9X
Tangible book value/share	\$8.88	Price/Earnings (TTM)	11.3X
Price/tangible book	1.9X	Price/Earnings (2013)E	10.1X

UFP Technologies designs and manufactures high performance cushion packaging and molded fiber products and specialty foam and plastic products. These products are used as protection for fragile and valuable items, and are sold primarily to original equipment manufacturers in the computer, electronics, automotive, medical/pharmaceutical and industrial markets. (www.ufpt.com)

Key investment considerations:

Reiterating Speculative Buy rating on UFP Technologies. Maintaining twelve-month price target of \$18.50.

Industry research firm IBISWorld projects growth over the next five years for UFPT's principal end markets (medical equipment: 6.4% average annual growth rate, automotive: 3.3%, consumer electronics: 3.0%) driven by an aging population, increasing automotive demand, and innovative new electronics products.

The company is tooling up to meet the strong demand for its molded fiber product line and has invested in new state-of-the-art equipment that is scheduled to be online by 3Q12.

The company's revenue growth has slowed over the past year due to the loss of a significant portion of a long-term automotive program. However, the projected growth of the automotive industry (averaging approximately 5% over the next two years) should help to offset in part the lost sales from this program. Also, UFP launched a new door panel program for Cadillac ATS and XTS vehicles in July 2012.

We project 2012 revenue of \$131.9 million, up from our previous revenue projection of \$130.7 million. The increase reflects 2Q12 results. Our EPS projection is lowered to \$1.46 from \$1.47 due to lower gross margins and a higher tax rate.

For 2013, we project revenue of \$140.0 million, up from our previous projection of \$138.5 million. The increase is due to a 6% growth rate on increased 2012 revenue expectations. Our EPS projection of \$1.69 is unchanged.

UFPT reported 2Q12 sales (released 8/2/12) increased 1% to \$33.7 million and EPS of \$0.39. We estimated 2Q12 sales of \$32.5 million and EPS of \$0.36.

Please view our disclosures on pages 13 - 15.

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on UFP Technologies and maintaining a **twelve-month price target of \$18.50 per share**.

From 2004 to 2011, UFPT traded at an average earnings multiple of 12X, higher than the current multiple of 11X making the stock attractive at these levels. We believe that with the growth we are projecting, the market will accord the stock a multiple of 12X. Applying a multiple of 12X to our 2013 earnings of \$1.69 per share discounted to a twelve-month value of \$1.56 per share gives us a price target of approximately \$18.50.

Business

Founded in 1963 and headquartered in Georgetown, Massachusetts, UFP Technologies designs and manufactures engineered packaging solutions utilizing molded fiber, vacuum-formed plastics, and molded and fabricated foam plastic products. The company also designs and manufactures engineered component products using laminating, molding, and fabricating technologies. 95% of UFPT's sales are to the automotive, computer and electronics, medical, aerospace and defense, industrial, and consumer markets in the United States.

In 2009, the company completed three acquisitions, Foamade Industries, E.N. Murray, and Advanced Materials. Foamade specialized in the fabrication of technical urethane foams for a myriad of industries, and both E.N. Murray and Advanced Materials specialized in the fabrication of technical urethane foams primarily for the medical industry.

Components products accounted for 67% of sales in 2011 while packaging products comprised 33%. We believe that approximately 35% of total 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, electronics, and industrial) each account for an estimated 10% to 20% of the company's revenue.

The company's high-performance cushion packaging products provide protection for fragile and valuable items, and are sold primarily to original equipment and component manufacturers. Molded fiber products are used for packaging high volume consumer goods, including computer components, medical devices, other light electronics, candles, and health and beauty products.

UFPT's component products include automotive interior trim, athletic padding, industrial safety belts, components for medical equipment and devices, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.

The company differentiates itself through the design and production of customized foam case inserts for the automotive, computers and electronics, medical, aerospace and defense, consumer, and industrial markets (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.



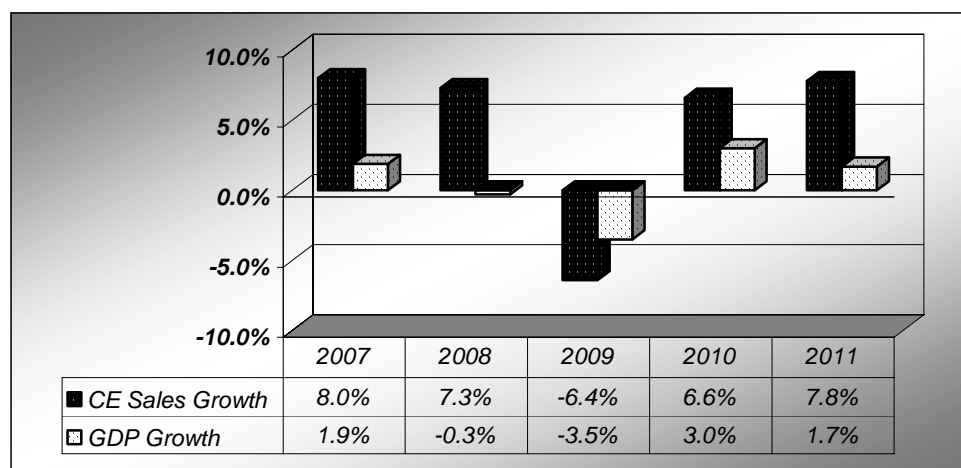
Industry Outlook

IBISWorld forecasts urethane and foam products industry growth averaging 3.4% annually over the five years to 2016. As discussed below, the end markets that UFP sells to are projected to grow at least through 2013.

The company’s medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. UFP Technologies fabricates products used for mammography pads, tool sterilization systems, and dental fluoride trays. An aging population and technological advancements are among the top factors that should influence the medical device industry over the next five years. Incidences of disease and disorders increase with age. For example, people aged 65 and older account for 40% of the total population diagnosed with some form of heart disease or arthritis, according to the Center for Disease Control. Recent medical advancements have further boosted the size of the 65 and older age group, as superior nutrition and improved safety have Americans living longer than ever. However, a changing regulatory environment could slow the rate of growth for this industry. For example, the Patient Protection and Affordable Care Act of 2010 will place an excise tax on medical devices, reducing industry profit to about 8.5% of revenue in 2017 versus 9.0% in 2012. In July 2012, IBISWorld forecasted medical device industry average annual sales growth of 6.4% to \$88.2 billion during the five years to 2017, much slower than the 12.8% average annual growth in the five years to 2012.

The automotive research firm Edmunds.com said that recent auto sales remained strong and are on track for growth of 13% to 14.4 million autos sold in 2012. In August 2012, Edmunds.com said that pent-up demand for autos is strong and can be expected to continue to contribute to sales, given the aging fleet (average age of vehicle being approximately 11 years old) and current expansion of credit. Further, while consumer uncertainty about economic conditions remains a risk for slowing auto sales, July’s confidence index increased somewhat. IBISWorld projected revenue growth of 4.8% in 2012 and 5.0% in 2013 for the US automobile industry. Growth will be driven by renewed consumer spending and a move toward green vehicles. However, a slowing US economy could adversely impact sales of cars through our forecast horizon.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which correlate with changes in the economy. The International Monetary Fund (IMF) forecasts US GDP growth of 2.0% in 2012 and 2.3% in 2013. The following chart shows how consumer electronics sales were affected by changes in the economy over the past five years.



Source: Consumer Electronics Association and Bureau of Economic Analysis

In May 2012, IBISWorld forecasted US consumer electronics retail sales to grow at an average annual rate of approximately 3.0% to \$93.7 billion during the five years to 2017. Driving this growth will be the introduction of innovative new technologies (like tablet computers and 3D displays) and renewed consumer spending. In August 2012, the US Census Bureau reported that new orders for computers and electronics are up 4.2% year-to-date. However, computer and electronics orders fell 4.4% in June. This follows a 0.4% decrease in May. If the US economic recovery stalls, consumer spending could fall below current projections.

UFP Technologies' aerospace and defense products are used in applications such as protective cases and inserts for military equipment (i.e. tools used for large engine rebuilds), uniform and gear components such as backpacks and duty belts used by soldiers in combat, and explosion suppressant foams used in fuel systems of aircrafts. The latest forecast (December 2011) from the industry research firm Datamonitor projects the global aerospace and defense market to have a value of \$1,204.2 billion in 2015, for a compound annual growth rate of approximately 3%.

Economic Outlook

Most of UFPT's sales are to economically sensitive end markets.

The global economic outlook has dimmed in recent weeks. In July 2012, the International Monetary Fund (IMF) revised its projections for global economic growth to 3.5% in 2012 and 3.9% in 2013. These are down from earlier projections (April 2012) of 3.6% in 2012 and 4.1% in 2013. The IMF's downward revision was primarily due to continuing financial problems in Europe and slower-than-expected growth in emerging economies. The IMF said that the most immediate risk to the global recovery was delayed or insufficient policy action that would exacerbate the Euro-area problems.

In August 2012, the ECB said its bond buying would be conditional upon European governments' restructuring their economies and the European bailout fund's purchase of bonds. The bond buying program was backed by all 23 members of the ECB governing council except one, the Bundesbank (Germany's central bank), threatening to scuttle the plan. The slowdown in the European economy could have a significant drag on the US economy as US exports to Europe account for approximately 22% of total exports.

The IMF is forecasting US economic growth of 2.0% in 2012 and 2.3% in 2013. These are down from earlier projections (April 2012) of 2.1% in 2012 and 2.4% in 2013. The IMF said that the main risk to the US economy is excessive fiscal tightening. If policy makers fail to reach consensus on extending some temporary tax cuts and reversing deep automatic spending cuts, the US fiscal deficit could decline by more than 4 percentage points of GDP.

As the company sells 95% of its products in the US, a slowing US economy could limit sales through our forecast horizon.

Competition

The packaging industry is highly competitive. While there are several national companies that sell interior packaging, the company's primary competition for its packaging are smaller independent regional manufacturing companies. In addition, the company'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 component products compete with smaller companies that typically concentrate on production of component products for specific industries.

Historically, geography has been a large factor in the packaging business. Companies shipping products typically buy packaging from companies 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 again 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 (\$4.2B 2011 sales, up 3% versus 2010), Packaging Corp. of America (\$2.6B 2011 sales, up 8%), Greif (\$4.2B 2011 sales, up 23%), Bemis Company (\$5.3B 2011 sales, up 10%), and Sealed Air Corp (\$5.6B 2011 sales, up 26%). UFPT's margins are greater than that of most of its competitors. UFP Technologies' 2011 gross margins were 28.5% versus 15.2% for Graphic Packaging, 20.7% for Packaging Corporation of America, 18.2% for Greif, 17.1% for Bemis, and 29.1% for Sealed Air. We believe that the reason for UFPT's greater margins compared to the industry is due to the company's ability to differentiate its products from competitors. 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

Over the past five years, UFPT's sales have grown at an average annual rate of 6%, slowing to 5% in 2011 due to the loss of a significant portion of a long-term automotive program that accounted for 9% of 2010 sales. During the past five years, GDP growth averaged 2.8% annually, slowing to 1.7% in 2011. Considering the slow growing economy in 2011 and the loss of a significant portion of a long-term automotive program, the company's sales during this time period showed good resilience to these adverse events. This was primarily due to a new contract in 2011 to supply backpack components to the US Marine Corps. We believe revenue will return to its historic growth rate of 6% starting in the second half of 2012, as the company launched a new door panel program for Cadillac ATS and XTS vehicles in July 2012. This new program utilizes the equipment formerly committed to the discontinued long-term Mercedes program. Also, the company is tooling up to meet the strong demand for its molded fiber product line and has invested in new equipment that is scheduled to be online by 3Q12.

2012 Forecast

For 2012, we project revenue of \$131.9 million and net income of \$10.3 million or \$1.46 per share. Recent results have resulted in an increase to our revenue estimate (previously \$130.7 million) however; our net income projection has been lowered (previously \$10.4 million or \$1.47 per share) primarily due to lower gross margins and a higher tax rate than previously anticipated.

The lower than expected 2Q12 gross margin resulted in a slight decrease to our gross margin forecast to 28.8% (previously 29.3%). SG&A expenses should increase to \$21.9 million from \$21.4 million with the increased business resulting in SG&A margins of 16.6%. We believe this level of SG&A expenditures is reasonable given SG&A margins have averaged 16.4% over the past twelve months. The effective tax rate is estimated at 36% (previously 35%).

In 2012, we project \$13.6 million cash from operations, cash earnings of \$15 million and an increase in working capital of \$1.4 million. The increase in working capital is primarily due to a \$0.6 million increase in receivables, a \$311,000 increase in inventories, a \$441,000 increase in prepaid expenses, and a \$0.5 million increase in other assets, offset in part by a \$260,000 increase in retirement and other liabilities and a \$202,000 increase in accrued expenses. We project 44 days sales outstanding in 2012 and inventory turnover of 9X, both figures in line with 2011 actual numbers. We project \$8.0 million of capital expenditures for new molded fiber equipment in addition to \$3.2 million of typical capital expenditures. Financing activities consist primarily of \$1 million principal repayments of long-term debt and a \$1.2 million distribution to United Development Company. We project an increase in cash of \$3.7 million for a year end cash balance of \$33.5 million.

2013 Forecast

For 2013, we project revenue of \$140 million and net income of \$12.2 million or \$1.69 per share. Although we kept our revenue growth rate unchanged at 6%, our increased 2012 revenue projection resulted in increased 2013 revenues. However, our net income projection remains largely unchanged primarily due to lower gross margins and a higher tax rate than previously anticipated. Higher sales volume should increase overhead coverage, resulting in gross margins of 30.0% (previously 30.4%). SG&A expenses should increase to \$23 million from \$21.9 million with margins of 16.4% (in line with margins over the past twelve months). Taxes are estimated at 36%.

In 2013, we project \$15.7 million cash from operations, cash earnings of \$17.1 million and increases in working capital of \$1.4 million. The increase in working capital is primarily due to a \$1 million increase in receivables, a \$436,000 increase in inventories, and a \$300,000 increase in other assets, offset in part by a \$354,000 increase in accrued expenses and a \$150,000 increase in accounts payable. We project 44 days sales outstanding in 2012 and inventory turnover of 9X, both figures in line with 2011 actual numbers and our 2012 estimates. We project \$3.5 million of capital expenditures. Financing activities consist primarily of \$1 million repayments of long-term debt. We project an increase in cash of \$11.4 million for a year end cash balance of \$44.9 million.

2Q and 1H Financial Results

2Q12 sales increased 1% to \$33.7 million. Net income was relatively flat at \$2.7 million or \$0.39 per share. We projected 2Q12 sales of \$32.5 million and net income of \$2.6 million or \$0.36 per share.

The increase in 2Q12 sales was primarily due to increased sales of \$0.7 million to the medical industry as well as an increase of \$0.6 million in sales of molded fiber packaging, mostly offset by a \$1.3 million decrease in sales to the automotive industry. The decline in sales to the automotive industry was largely due to the phase-out of a significant portion of a large door panel program (due to a redesigned model vehicle) which ended on June 30, 2011. The company still supplies door panels to the customer for other model vehicles. Sales of door panels for the discontinued model vehicle were approximately \$2.2 million in the three-month period ended June 30, 2011. Excluding the door panel program, sales grew 7.4%.

Gross margins decreased to 28.8% from 29.9% primarily due to a \$250,000 tooling sale at cost (zero gross margin) and a \$220,000 one-time inventory reserve charge. SG&A expenses decreased to \$5.4 million from \$5.7 million primarily due to a \$200,000 decrease in professional fees.

The company showed an effective income tax rate of approximately 36% in 2Q12, up from 37% in 2Q11 due to higher than expected domestic manufacturing deductions.

1H12 sales increased 1% to \$65.6 million. Net income increased 4% to \$5.1 million or \$0.72 per share from \$4.9 million or \$0.70 per share in 1H11. The results for 1H11 include a \$0.8 million gain from the sale of real estate by an affiliated partnership, UDT. Of this \$0.8 million gain, approximately \$428,000 related to non-controlling interests that have been deducted to determine net interest attributable to UFPT.

The increase in 1H12 sales was primarily due to increased sales of \$1.2 million to the medical industry as well as an increase of \$1.6 million in sales of molded fiber packaging, mostly offset by a \$2.2 million decrease in sales to the automotive industry. The decline in sales to the automotive industry was largely due to the phase-out of a significant portion of a large door panel program (due to a redesigned model vehicle) which ended on June 30, 2011. The company still supplies door panels to the customer for other model vehicles. Sales of door panels for the discontinued model vehicle were approximately \$4.0 million in the six-month period ended June 30, 2011. Excluding the door panel program, sales grew 7.6%.

	Income Statement (in thousands \$)	
	6mos11A	6mos12A
Net sales	65,005	65,625
Cost of sales	46,200	46,733
Gross profit	18,805	18,892
Extraordinary items	(834)	(12)
SG&A	11,412	10,910
Operating income	8,227	7,994
Interest exp, other inc and exp	(10)	(32)
Income before taxes	8,217	7,962
Income tax	2,881	2,866
Income attrib. to noncontrol. interests	(429)	-
Net Income / (Loss)	4,907	5,096
EPS	0.70	0.72
Shares Outstanding	6,974	7,046
<u>Margin Analysis</u>		
Gross margin	28.9%	28.8%
SG&A	17.6%	16.6%
Operating margin	12.7%	12.2%
Tax rate	35.1%	36.0%
<u>Year / Year Growth</u>		
Total Revenues		1.0%
Net Income		3.9%
EPS		2.8%
Source: Company filings		

Gross margins decreased to 28.8% from 28.9% primarily due to higher overhead costs. SG&A expenses decreased to \$10.9 million from \$11.4 million primarily due to a \$340,000 decrease in professional fees.

Excluding net income attributable to non-controlling interests, the company showed an effective income tax rate of approximately 36% in 1H12, up from 37% in 1H11 due to higher than expected domestic manufacturing deductions.

Liquidity

The company has a strong balance sheet. Long-term debt is \$5.3 million and cash (approximately \$4.35 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is 0.1 versus 1.2 for the industry.

Cash of \$5.9 million from operations in 1H12 consisted mainly of cash earnings of \$6.9 million partially offset by increases in working capital of \$1 million. The increase in working capital was due primarily to an increase in receivables, prepaid expenses and other assets, offset in part by decreased taxes receivable. Capital expenditures were \$5 million. A \$1.2 million distribution to UDT and a \$0.7 million payment of statutory withholdings for stock options exercised accounted for most of the cash used in financing activities. The net result was a \$0.6 million decrease in cash to \$29.2 million as of June 30, 2012.

UFPT's available bank credit facilities are as follows: a \$17 million revolving line of credit, a \$2.1 million term loan with seven-year straight-line amortization, a \$1.8 million term loan with 20-year straight-line amortization, and a \$4 million term loan with 20-year straight-line amortization.

As of June 30, 2012, the company had approximately \$16.9 million available on its revolving line of credit based upon available collateral. 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 \$17 million revolving credit facility is due November 30, 2013; the term loans are all due on January 29, 2016. Under the credit facility, the company is subject to a minimum fixed-charge coverage financial covenant which the company was in compliance with at June 30, 2012. The interest rate on these facilities was 1.24% at June 30, 2012.

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 28% of total revenues in 2011. A single automotive program accounted for approximately 7% of total sales in 2011. A substantial portion of this program was phased out in 2011.

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 6.7 million shares outstanding and 5.1 million in the float, liquidity issues must be considered. Average daily volume has been approximately 32,000 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 Sheet for the Periods Ended
(in thousands \$)

	<u>2010A</u>	<u>2011A</u>	<u>6/12A</u>	<u>2012E</u>	<u>2013E</u>
Cash and cash equivalents	22,103	29,849	29,237	33,549	44,940
Receivables	14,634	15,619	16,394	16,187	17,185
Inventories	8,044	9,758	9,919	10,069	10,506
Prepaid expenses	1,035	559	866	1,000	1,100
Refundable income taxes	1,414	1,086	502	1,188	1,250
Deferred income taxes	<u>1,209</u>	<u>1,169</u>	<u>1,223</u>	<u>1,278</u>	<u>1,450</u>
Total current assets	48,439	58,040	58,141	63,272	76,431
Net property, plant and equipment	12,575	13,346	17,056	18,011	17,811
Goodwill	6,481	6,481	6,481	6,481	6,481
Intangible assets	594	399	315	239	79
Other assets	<u>1,389</u>	<u>1,455</u>	<u>1,870</u>	<u>1,776</u>	<u>1,939</u>
Total assets	<u>69,478</u>	<u>79,721</u>	<u>83,863</u>	<u>89,779</u>	<u>102,741</u>
Current portion of long-term debt	654	581	581	600	600
Accounts payable	2,838	3,344	3,481	3,451	3,600
Accrued expenses	<u>6,679</u>	<u>5,540</u>	<u>5,174</u>	<u>5,742</u>	<u>6,095</u>
Total current liabilities	10,171	9,465	9,236	9,792	10,296
Long-term debt	6,847	5,639	5,348	4,639	3,639
Deferred income taxes	881	1,292	1,339	1,200	1,000
Other liabilities	<u>1,352</u>	<u>1,340</u>	<u>1,513</u>	<u>1,600</u>	<u>1,600</u>
Total liabilities	19,251	17,736	17,436	17,231	16,535
Total stockholders' equity	<u>50,227</u>	<u>61,985</u>	<u>66,427</u>	<u>72,547</u>	<u>86,206</u>
Total liabilities & stockholders' equity	<u>69,478</u>	<u>79,721</u>	<u>83,863</u>	<u>89,779</u>	<u>102,741</u>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

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

	<u>2009A</u>	<u>2010A</u>	<u>2011A</u>	<u>2012E</u>	<u>2013E</u>
Net sales	99,231	120,766	127,244	131,875	140,000
Cost of sales	<u>72,512</u>	<u>86,150</u>	<u>90,999</u>	<u>93,903</u>	<u>97,972</u>
Gross profit	26,719	34,616	36,245	37,972	42,028
Extraordinary items	-	-	(839)	(12)	-
SG&A	<u>18,539</u>	<u>20,236</u>	<u>21,368</u>	<u>21,860</u>	<u>23,000</u>
Operating income	8,180	14,380	15,716	16,124	19,028
Interest exp, other inc and exp	<u>618</u>	<u>46</u>	<u>(27)</u>	<u>(26)</u>	<u>40</u>
Income before taxes	8,798	14,426	15,689	16,098	19,068
Income tax	<u>2,817</u>	<u>5,019</u>	<u>4,906</u>	<u>5,796</u>	<u>6,864</u>
Income attrib. to noncontrol. interests	<u>(52)</u>	<u>(160)</u>	<u>(437)</u>	<u>-</u>	<u>-</u>
Net Income / (Loss)	<u>5,929</u>	<u>9,247</u>	<u>10,346</u>	<u>10,302</u>	<u>12,204</u>
EPS	<u>0.94</u>	<u>1.37</u>	<u>1.48</u>	<u>1.46</u>	<u>1.69</u>
Shares Outstanding	6,294	6,757	6,999	7,065	7,225
<u>Margin Analysis</u>					
Gross margin	26.9%	28.7%	28.5%	28.8%	30.0%
SG&A	18.7%	16.8%	16.8%	16.6%	16.4%
Operating margin	8.2%	11.9%	12.4%	12.2%	13.6%
Pretax margin	8.9%	11.9%	12.3%	12.2%	13.6%
Tax rate	32.0%	34.8%	31.3%	36.0%	36.0%
<u>Year / Year Growth</u>					
Total Revenues	-9.8%	21.7%	5.4%	3.6%	6.2%
Net Income	15.9%	56.0%	11.9%	(0.4)%	18.5%
EPS	15.3%	45.3%	8.0%	(1.4)%	15.8%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.
Quarterly Income Statement for the Fiscal Years Ending December 31, 2011, 2012, and 2013
(in thousands \$)

	<u>3/11A</u>	<u>6/11A</u>	<u>9/11A</u>	<u>12/11A</u>	<u>2011A</u>	<u>3/12A</u>	<u>6/12A</u>	<u>9/12E</u>	<u>12/12E</u>	<u>2012E</u>	<u>3/13E</u>	<u>6/13E</u>	<u>9/13E</u>	<u>12/13E</u>	<u>2013E</u>
Net sales	31,504	33,501	30,762	31,477	127,244	31,952	33,673	32,750	33,500	131,875	33,600	35,000	35,000	36,400	140,000
Cost of sales	<u>22,702</u>	<u>23,498</u>	<u>22,278</u>	<u>22,522</u>	<u>90,999</u>	<u>22,751</u>	<u>23,982</u>	<u>23,318</u>	<u>23,852</u>	<u>93,903</u>	<u>23,856</u>	<u>24,500</u>	<u>24,500</u>	<u>25,116</u>	<u>97,972</u>
Gross profit	8,802	10,003	8,484	8,955	36,245	9,201	9,691	9,432	9,648	37,972	9,744	10,500	10,500	11,284	42,028
Extraordinary items	(834)	-	-	(5)	(839)	(5)	(7)	-	-	(12)	-	-	-	-	-
SG&A	<u>5,726</u>	<u>5,686</u>	<u>5,220</u>	<u>4,739</u>	<u>21,368</u>	<u>5,518</u>	<u>5,392</u>	<u>5,450</u>	<u>5,500</u>	<u>21,860</u>	<u>5,550</u>	<u>5,750</u>	<u>5,750</u>	<u>5,950</u>	<u>23,000</u>
Operating income	3,910	4,317	3,264	4,221	15,716	3,688	4,306	3,982	4,148	16,124	4,194	4,750	4,750	5,334	19,028
Interest exp, other inc and exp	<u>2</u>	<u>(12)</u>	<u>(6)</u>	<u>(8)</u>	<u>(27)</u>	<u>(17)</u>	<u>(14)</u>	<u>-</u>	<u>5</u>	<u>(26)</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>	<u>40</u>
Income before taxes	3,912	4,305	3,258	4,213	15,689	3,671	4,292	3,982	4,153	16,098	4,204	4,760	4,760	5,344	19,068
Income tax	<u>1,279</u>	<u>1,603</u>	<u>819</u>	<u>1,205</u>	<u>4,906</u>	<u>1,322</u>	<u>1,545</u>	<u>1,434</u>	<u>1,495</u>	<u>5,796</u>	<u>1,513</u>	<u>1,714</u>	<u>1,714</u>	<u>1,924</u>	<u>6,864</u>
Income attrib. to noncontrol. interests	<u>(428)</u>	<u>-</u>	<u>(4)</u>	<u>(4)</u>	<u>(437)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income / (Loss)	<u>2,205</u>	<u>2,702</u>	<u>2,435</u>	<u>3,004</u>	<u>10,346</u>	<u>2,349</u>	<u>2,747</u>	<u>2,548</u>	<u>2,658</u>	<u>10,302</u>	<u>2,691</u>	<u>3,046</u>	<u>3,046</u>	<u>3,420</u>	<u>12,204</u>
EPS	<u>0.32</u>	<u>0.39</u>	<u>0.35</u>	<u>0.43</u>	<u>1.48</u>	<u>0.33</u>	<u>0.39</u>	<u>0.36</u>	<u>0.37</u>	<u>1.46</u>	<u>0.38</u>	<u>0.42</u>	<u>0.42</u>	<u>0.47</u>	<u>1.69</u>
Shares Outstanding	6,969	6,982	6,999	7,010	6,999	7,030	7,055	7,075	7,100	7,065	7,150	7,200	7,250	7,300	7,225
<u>Margin Analysis</u>															
Gross margin	27.9%	29.9%	27.6%	28.4%	28.5%	28.8%	28.8%	28.8%	28.8%	28.8%	29.0%	30.0%	30.0%	31.0%	30.0%
SG&A	18.2%	17.0%	17.0%	15.1%	16.8%	17.3%	16.0%	16.6%	16.4%	16.6%	16.5%	16.4%	16.4%	16.3%	16.4%
Operating margin	12.4%	12.9%	10.6%	13.4%	12.4%	11.5%	12.8%	12.2%	12.4%	12.2%	12.5%	13.6%	13.6%	14.7%	13.6%
Pretax margin	12.4%	12.9%	10.6%	13.4%	12.3%	11.5%	12.7%	12.2%	12.4%	12.2%	12.5%	13.6%	13.6%	14.7%	13.6%
Tax rate	32.7%	37.2%	25.1%	28.6%	31.3%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%	36.0%
<u>Year / Year Growth</u>															
Total Revenues	9.8%	11.8%	1.0%	(0.5)%	5.4%	1.4%	0.5%	6.5%	6.4%	3.6%	5.2%	3.9%	6.9%	8.7%	6.2%
Net Income	45.9%	18.4%	3.0%	(2.8)%	11.9%	6.5%	1.7%	4.7%	(11.5)%	(0.4)%	14.5%	10.9%	19.5%	28.7%	18.5%
EPS	39.1%	14.0%	(0.2)%	(4.6)%	8.0%	5.6%	0.6%	3.5%	(12.6)%	(1.4)%	12.6%	8.7%	16.7%	25.2%	15.8%

Source: Company filings and Taglich Brothers' estimates

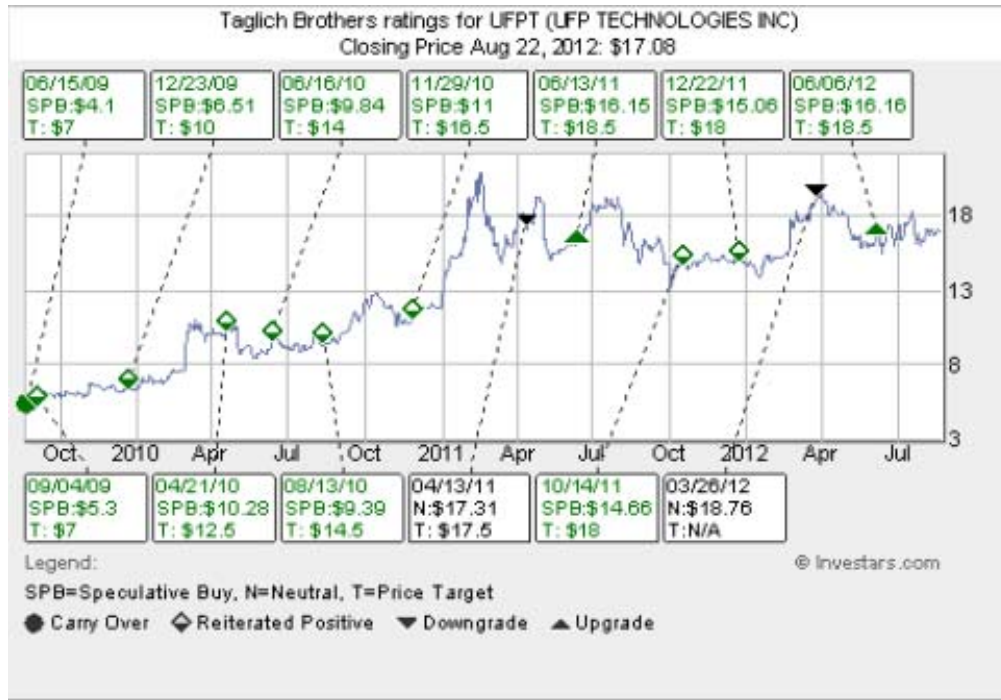
UFP Technologies, Inc.

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

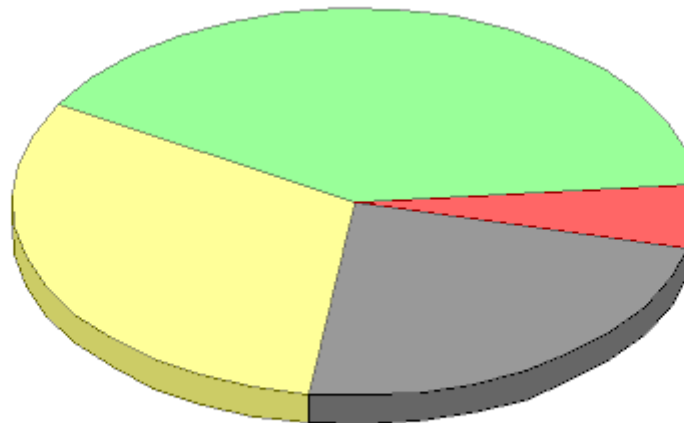
	<u>2010A</u>	<u>2011A</u>	<u>6mos12A</u>	<u>2012E</u>	<u>2013E</u>
Net income	9,407	10,784	5,096	10,302	12,204
Depreciation & amortization	3,152	2,781	1,405	3,660	3,860
Gain on acquisition	-	-	-	-	-
(Gain) loss on disposal of property, plant and equipment	(12)	(839)	(12)	(12)	-
Share-based compensation	964	1,089	497	1,200	1,200
Stock issued in lieu of compensation	79	55	-	100	100
Excess tax benefit on share-based compensation	(854)	(700)	(276)	(700)	(700)
Deferred income taxes	306	452	185	400	450
<i>Changes in assets and liabilities</i>					
Receivables	(415)	(985)	(776)	(568)	(997)
Inventories	(397)	(1,714)	(161)	(311)	(436)
Prepaid expenses	(559)	476	(308)	(441)	(100)
Refundable income taxes	(1,414)	327	584	(102)	(62)
Accounts payable	161	507	136	107	150
Accrued expenses and other	1,381	(440)	(90)	202	354
Retirement and other liabilities	234	(12)	173	260	-
Other assets	(205)	(65)	(547)	(500)	(300)
Net Cash Provided by Operations	11,828	11,716	5,906	13,596	15,721
Additions to property, plant and equipment	(3,286)	(3,741)	(5,029)	(8,000)	(3,500)
Redemption of cash value life insurance	-	-	132	132	-
Proceeds from sale of property, plant and equipment	12	1,223	12	12	-
Acquisitions	-	-	-	-	-
Net Cash Used in Investing	(3,274)	(2,518)	(4,885)	(7,856)	(3,500)
Proceeds from long-term borrowings	-	-	-	-	-
Distribution to United Development Company partners	(105)	(289)	(1,210)	(1,210)	-
Tax benefit from exercise of non-qualified stock options	854	700	276	700	700
Proceeds from exercise of stock options	507	250	263	300	300
Payment of statutory withholdings for stock options exercised	(485)	(830)	(672)	(830)	(830)
Principal repayments of long-term debt	(624)	(1,282)	(290)	(1,000)	(1,000)
Principle repayments of capital lease obligations	-	-	-	-	-
Cash settlement of restricted stock units	-	-	-	-	-
Net Cash Provided by (Used in) Financing	147	(1,451)	(1,633)	(2,040)	(830)
Net Change in Cash	8,701	7,747	(612)	3,700	11,391
Cash - Beginning of Period	13,401	22,102	29,849	29,849	33,549
Cash - End of Period	22,102	29,849	29,237	33,549	44,940
Cash Flow from Operations	11,828	11,716	5,906	13,596	15,721
Capital Expenditures	(3,286)	(3,741)	(5,029)	(8,000)	(3,500)
Free Cash Flow	8,542	7,975	877	5,596	12,221

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



40.26 % Buy 31.17 % Hold 23.38 % Not Rated 5.19 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	1	4
Hold		
Sell		
Not Rated		

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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

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Dropping Coverage

We have discontinued research coverage due to acquisition of the company, termination of research services, non-payment for such services 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.