

## Research Report – Update

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

### UFP Technologies, Inc.

**Rating: Buy**

John Nobile

November 11, 2020

**UFPT \$48.25 — (NASDAQ CM)**

	2018A	2019A	2020E	2021E
Revenues (millions)	\$190.5	\$198.4	\$180.4	\$200.0
Earnings per share (diluted)	\$1.93	\$2.63	\$1.64	\$2.59

52-Week range	\$52.59 – \$30.80	Fiscal year ends:	December
Shares outstanding as of 11/2/20	7.5 million	Revenue per share (TTM)	\$24.46
Approximate float	6.3 million	Price/Sales (TTM)	2.0X
Market capitalization	\$362 million	Price/Sales (2021)E	1.8X
Tangible book value/share	\$13.42	Price/Earnings (TTM)	24.2X
Price/tangible book	3.6X	Price/Earnings (2021)E	18.6X

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 \$55.00 per share.**

**Although the COVID-19 pandemic did not materially impact UFPT's 1Q20 results, it did have a materially adverse effect on its 2Q20 and 3Q20 results. We anticipate the adverse effect from the pandemic will continue to impact 4Q20 results.**

**In response to the economic uncertainties resulting from the COVID-19 pandemic, the company has initiated cost-cutting measures, including labor cost reductions (including employee terminations). Such reductions only partially affected UFPT's results of operations for 3Q20. We anticipate the full impact of these cost-cutting measures to be realized starting in 4Q20.**

**The company has a strong balance sheet to offset diminished near-term results, as well as the ability to consider making strategic acquisitions. As of September 30, 2020, UFPT had \$17.4 million cash, shareholder's equity of \$172.4 million, and no debt. We project the company will generate \$28.8 million cash earnings in 2021 and end with \$43.1 million in cash.**

**3Q20 sales (10Q released on 11/6/20) decreased 12.3% to \$43.3 million with EPS of \$0.40, down from \$0.75 in 3Q19. We projected 3Q20 net sales of \$45 million and EPS of \$0.32.**

**For 2020, we project a 9.1% decline in revenue to \$180.4 million and EPS of \$1.64. Our EPS projection is unchanged but our revenue projection has been reduced to reflect 3Q20 results.**

**For 2021, we project a 10.9% increase in revenue to \$200 million and EPS of \$2.59. We previously projected revenue of \$204 million and EPS of \$2.62. Our reduced forecast reflects lower medical market sales than previously anticipated offset in part by a full year of savings from cost-cutting measures initiated in 2020.**

**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 \$55.00 per share.**

Although the COVID-19 pandemic did not materially impact UFPT’s 1Q20 results, it did have a materially adverse effect on its 2Q20 and 3Q20 results. We anticipate the adverse effect from the pandemic will continue to impact 4Q20 results. While all of the company’s factories are deemed essential, not all of its customers’ operations are essential and, therefore, demand for UFPT’s products has been negatively impacted.

In response to the economic uncertainties resulting from the COVID-19 pandemic, the company has initiated cost-cutting measures, including restrictions on travel and labor cost reduction measures (including employee terminations). Terminated employees were provided with severance pay and accordingly such terminations only partially affected UFPT’s results of operations for 3Q20. We anticipate the full impact of these cost-cutting measures to be realized starting in 4Q20.

The company has a strong balance sheet to offset diminished near-term results, as well as the ability to consider making strategic acquisitions. As of September 30, 2020, UFPT had \$17.4 million cash, shareholder’s equity of \$172.4 million, and no debt. We project the company will generate \$28.8 million cash earnings in 2021 and end with \$43.1 million in cash.

Shares of UFP Technologies trade at a forward multiple that is lower than its peers (see chart below). We believe UFPT’s multiple should expand from current levels given earnings growth (excludes potential acquisitions) that should outperform its peers. We applied a multiple of 21X (unchanged) to our 2021 EPS projection of \$2.59 to obtain a year-ahead value of approximately \$55.00 per share.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2021 P/E	Projected EPS Growth to 2021	
Atrion Corp	ATRI	611.1	1,120	32.3	NMF	NMF	
Lantheus Holdings Inc	LNTH	11.74	748	38.9	16.1	47%	
DMC Global Inc	BOOM	38.21	575	NMF	80.3	NMF	
Surmodics Inc	SRDX	37.35	528	NMF	NMF	NMF	
OraSure Technologies Inc	OSUR	12.68	862	NMF	23.2	NMF	
Cutera Inc	CUTR	21.06	376	NMF	NMF	NMF	
Meridian Bioscience Inc	VIVO	15.73	667	15.5	16.6	-7%	
Lydall Inc	LDL	20.24	374	NMF	16.7	NMF	
CECO Environmental Corp	CECE	6.47	240	15.4	11.8	5%	
SeaSpine Holdings Corp	SPNE	14.8	407	NMF	NMF	37%	
Accuray Inc	ARAY	3.09	309	20.6	39.6	NMF	
Hurco Companies Inc	HURC	29.42	194	NMF	NMF	NMF	
Graham Corp	GHM	14.58	148	97.2	24.7	95%	
Harvard Bioscience Inc	HBIO	3.77	150	NMF	12.8	79%	
<b>Peer Average</b>				<b>36.6</b>	<b>26.8</b>	<b>43%</b>	
Company							
<b>UFP Technologies</b>	<b>UFPT</b>	<b>48.25</b>	<b>362</b>	<b>24.2</b>	<b>18.6</b>	<b>58%</b>	

Source: Taglich Brothers estimates, finviz

**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.

In 2019, approximately 65% of UFPT’s sales were to the medical device industry with the remaining industries accounting for between 4.2% (electronics) to 10.1% (automotive) of sales.

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 products are pictured at right).



**Industry Outlook**

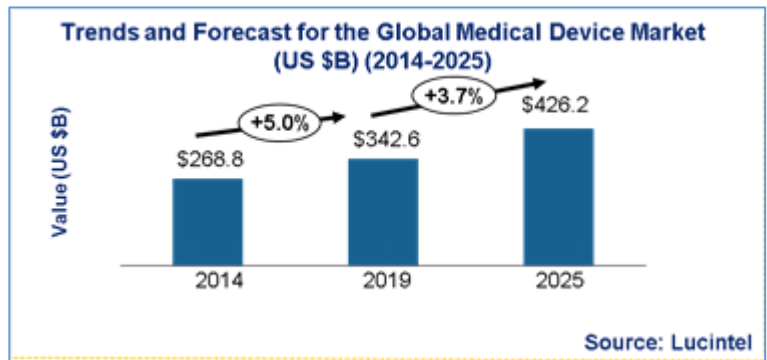
We will focus our industry outlook discussion on the medical market as UFPT’s sales are predominantly to this end market.

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 forecasts the medical device industry to have average annual sales growth of approximately 3% to \$54.5 billion in 2025 from 2020.

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 2025, resulting in annualized growth of 3.1% 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 opportunities in the hospital and homecare sectors. ResearchandMarkets projects the global medical device market to reach an estimated \$426.6 billion by 2025, growing at a compound annual growth rate (CAGR) of 4.1% from 2020 to 2025. Similar to IBISWorld, ResearchandMarkets expects major drivers of this growth to be healthcare expenditures, technological developments, an aging population, and chronic diseases.

In July 2020, Lucintel estimated the global medical device market to grow from \$342.6 billion in 2019 to \$426.2 billion by 2025 for a CAGR of 3.7% (see chart at right). Lucintel expects the market to decline in 2020 due to the global economic recession led by COVID-19. However, the market should witness a recovery starting in 2021. Similar to the reasons above,



Lucintel said that market growth will be driven by increasing healthcare expenditure, technological development, a growing aging population, and chronic diseases.

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 35% is tied to economically sensitive end markets in the US. The economic outlook for the US could have an adverse effect on the company's sales through our forecast horizon.

In October 2020, the International Monetary Fund (IMF) revised its global economic estimates to a decline of 4.4% for 2020 and growth of 5.2% for 2021. In June 2020, the IMF predicted a GDP decline of 5.2% for 2020 and growth of 5.4% for 2021. The 2020 upward revision primarily reflects better-than-anticipated 2Q20 GDP. The 2021 downward revision primarily reflects the more moderate downturn projected for 2020.

The IMF revised its economic growth estimate for the US to a decline of 4.3% for 2020 and growth of 3.1% for 2021. In June 2020, the IMF projected a decline in US growth of 8% for 2020 and growth of 4.5% for 2021.

The advance estimate of US GDP growth (released on October 29, 2020) showed the US economy increased at an annual rate of 33.1% in 3Q20, up from the 31.4% decline reported in 2Q20. The 3Q20 US GDP estimate primarily reflects increases in consumer spending, inventory investment, exports, business investment, and housing investment, partially offset by a decrease in government spending.

### ***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.

### ***Projections***

Although the COVID-19 pandemic did not materially impact UFPT's 1Q20 results, it did have a materially adverse effect on its 2Q20 and 3Q20 results. We anticipate the adverse effect from the pandemic will continue to impact 4Q20 results. While all of the company's factories are deemed essential, not all of its customers' operations are essential and, therefore, demand for UFPT's products has been negatively impacted, especially in the automotive and consumer markets.

In light of the COVID-19 pandemic, elective medical procedures and exams have been delayed or canceled and there has been a significant reduction in physician office visits. Thus, hospitals have postponed or canceled capital purchases. We believe that these responses have had a negative impact on the demand for the company's components for medical devices.

In response to the economic uncertainties resulting from the COVID-19 pandemic, the company has initiated cost-cutting measures, including restrictions on travel and labor cost reduction measures (including employee terminations). Terminated employees were provided with severance pay and accordingly such terminations only partially affected UFPT's results of operations for 3Q20. We anticipate the full impact of these cost-cutting measures to be realized starting in 4Q20.

#### 2020 Forecast

For 2020, we project a decline in revenue of 9.1% to \$180.4 million and net income of \$12.4 million or \$1.64 per share. Our net income projection is unchanged but our revenue projection has been reduced to reflect 3Q20 results.

We project gross margins decreasing to 24.8% from 27.2% in 2019 due primarily to reduced manufacturing overhead coverage and higher plant maintenance and supply expenses associated with keeping UFPT's manufacturing plants clean due to the COVID-19 pandemic.

SG&A expenses are projected to be \$28.3 million, approximately \$1 million lower than 2019 as the company controls costs. SG&A margins should increase to 15.7% from 14.7% in 2019. We project a 35% decline in operating income to \$16.1 million with margins decreasing to 8.9% from 12.5%. Our tax rate forecast is 20.7%.

In 2020, we project \$22.9 million cash from operations primarily from cash earnings. We project a \$19 million increase in cash to \$22.8 million at the end of 2020 after \$4 million of capital expenditures.

#### 2021 Forecast

For 2021, we project a 10.9% increase in revenue to \$200 million and net income of \$19.6 million or \$2.59 per share. We previously projected revenue of \$204 million and net income of \$19.8 million or \$2.62 per share. Our reduced forecast reflects lower medical market sales than previously anticipated offset in part by a full year of savings from cost-cutting measures initiated in 2020.

We project gross margins increasing to 27.8% from 24.8% projected for 2020 due primarily to increased manufacturing overhead coverage and continued growth in higher margin medical sales.

SG&A expenses should increase to \$29.4 million from our projected \$28.3 million in 2020 due primarily to increased compensation costs. SG&A margins should decrease to 14.7% from 15.7% in 2020. We project a 62.7% increase in operating income to \$26.1 million with margins increasing to 13.1% from 8.9%. Our tax rate forecast is 25%.

In 2021, we project \$25.3 million cash from operations on cash earnings of \$28.8 million and a \$3.5 million increase in working capital primarily due to an increase in receivables and inventories. We project a \$20.4 million increase in cash to \$43.1 million at the end of 2021 after \$5 million of capital expenditures.

### ***3Q and nine months 2020 Financial Results***

3Q20 - Sales decreased 12.3% to \$43.3 million with net income of \$3 million or \$0.40 per share, down from \$5.6 million or \$0.75 per share in 3Q19. We projected 3Q20 net sales of \$45 million and net income of \$2.4 million or \$0.32 per share.

The decline in sales was primarily attributable to the adverse impact on demand for the company's products as a result of the COVID-19 pandemic. Gross profit decreased 21% to \$10.5 million from \$13.3 million and gross margins decreased to 24.3% from 27% due to reduced manufacturing overhead coverage offset in part by manufacturing efficiencies. SG&A expenses decreased to \$6.8 million from \$7.2 million due primarily to decreases in compensation related reserves and reduced company-wide travel and entertainment expenses. Operating income decreased to \$3.7 million or 8.6% of sales from \$6.1 million or 12.4% of sales.

Non-operating expense was \$17,000 compared to \$189,000. Interest expense decreased to \$17,000 from \$165,000 while other expense was nil versus \$24,000 in the year-ago period. The decrease in interest expense was primarily due to a reduced debt level. The company had an effective income tax rate of 19.4%.

*Nine months 2020* - Sales decreased 9.4% to \$134.2 million with net income of \$9.2 million or \$1.22 per share, down from \$14 million or \$1.87 per share.

The decline in sales was primarily attributable to the adverse impact on demand for the company's products as a result of the COVID-19 pandemic. Gross profit decreased 17.1% to \$33.3 million from \$40.2 million and gross margins decreased to 24.8% from 27.1% due to reduced manufacturing overhead coverage offset in part by manufacturing efficiencies. SG&A expenses decreased to \$21.2 million from \$22.2 million. Operating income decreased to \$11.8 million or 8.8% of sales from \$18 million or 12.1% of sales.

Non-operating expense was \$428,000 compared to \$1.1 million. Interest expense decreased to \$66,000 from \$590,000 while other expense was \$362,000 versus \$437,000 in the year-ago period. The decrease in interest expense was primarily due to a reduced debt level. The company had an effective income tax rate of 19.1%.

*Liquidity*

At September 30, 2020, the company had \$17.4 million cash, a current ratio of 4.3X, tangible equity of \$100.1 million or \$13.42 per share, and no debt.

Cash provided by operations in the first nine months of 2020 was \$16.7 million consisting \$18 million cash earnings and a \$1.3 million increase in working capital. The increase in working capital was due primarily to increases in prepaid expenses. Cash from operations covered capital expenditures of \$3.1 million, resulting in a \$13.7 million increase in cash to \$17.4 million at September 30, 2020.

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 0.25% 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 September 30, 2020, the applicable interest rate was approximately 1.1% and the company was in compliance with all covenants.

**Risks**

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

*Pandemic concerns* – While all of the company's operations are located in the US, it participates in a global supply chain. Disruptions to UFPT's supply chain and business operations from a global pandemic, such as the coronavirus, could include the closure of supplier and manufacturer facilities, interruptions in the supply of raw

	Income Statement (in thousands \$)	
	9M20A	9M19A
Net sales	134,220	148,120
Cost of sales	100,919	107,932
Gross profit	33,301	40,188
Extraordinary items	298	-
SG&A	21,208	22,226
Operating income	11,795	17,962
Interest exp, other inc and exp	(428)	(1,051)
Income before taxes	11,367	16,911
Income tax	2,170	2,938
Net Income / (Loss)	9,197	13,973
EPS	1.22	1.87
Shares Outstanding	7,547	7,476
<u>Margin Analysis</u>		
Gross margin	24.8%	27.1%
SG&A	15.8%	15.0%
Operating margin	8.8%	12.1%
Tax rate	19.1%	17.4%
<u>Year / Year Growth</u>		
Total Revenues	(9.4)%	
Net Income	(34.2)%	
EPS	(34.8)%	
Source: Company filings		

materials and components, personnel absences, or restrictions on the shipment of its suppliers' or customers' products, any of which could adversely affect the company's manufacturing output and delivery schedule.

The company's operations expose it to risks associated with the COVID-19 pandemic. Although the COVID-19 pandemic did not materially impact UFPT's 1Q20, it has since had a materially significant impact on operations. While all of the company's factories are deemed essential, not all of its customers' operations are essential and, therefore, demand for UFPT's products has been negatively impacted, especially in the automotive and consumer markets, where the impact has been substantial.

*Dependence on a small number of customers*

The company's top ten customers represented approximately 35% of total revenues in 2019. 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 competitors may increase their participation in, or new competitors may enter into, the markets in which the company competes.

*Economic conditions*

Poor economic conditions could negatively impact sales of the company's packaging customers. A potential disruption of US economic conditions lies in the global spread of the coronavirus that is likely to cause supply chain and demand issues which could adversely impact corporate operating results.

*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 7.5 million shares outstanding and 6.3 million in the float, liquidity issues must be considered. Average daily volume has been approximately 23,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

*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>2017A</u>	<u>2018A</u>	<u>2019A</u>	<u>9/20A</u>	<u>2020E</u>	<u>2021E</u>
Cash and cash equivalents	37,978	3,238	3,743	17,435	22,770	43,146
Receivables	21,381	28,321	28,648	27,364	26,061	28,889
Inventories	12,863	19,576	18,276	19,488	19,394	20,639
Prepaid expenses	1,835	2,206	2,304	3,700	3,700	3,700
Refundable income taxes	<u>1,017</u>	<u>2,285</u>	<u>279</u>	<u>576</u>	<u>576</u>	<u>576</u>
Total current assets	75,074	55,626	53,250	68,563	72,500	96,950
Net property, plant and equipment	53,652	57,667	56,739	54,351	54,409	53,225
Goodwill	7,322	51,838	51,838	51,838	51,838	51,838
Intangible assets	-	22,232	20,975	20,032	19,718	18,461
Other assets	<u>2,159</u>	<u>2,235</u>	<u>5,956</u>	<u>5,880</u>	<u>5,880</u>	<u>5,880</u>
<b>Total assets</b>	<b><u>138,207</u></b>	<b><u>189,598</u></b>	<b><u>188,758</u></b>	<b><u>200,664</u></b>	<b><u>204,345</u></b>	<b><u>226,354</u></b>
Current portion of long-term debt	-	2,857	-	-	-	-
Deferred revenue	297	2,507	2,574	1,946	1,946	1,946
Accounts payable	4,180	6,836	4,577	4,547	4,525	4,816
Finance lease liabilities	-	-	-	15	15	15
Operating lease liabilities	-	-	674	1,140	1,140	1,140
Accrued expenses	<u>5,466</u>	<u>8,458</u>	<u>8,483</u>	<u>8,415</u>	<u>8,299</u>	<u>8,552</u>
Total current liabilities	9,943	20,658	16,308	16,063	15,925	16,469
Long-term debt	-	22,286	-	-	-	-
Deferred income taxes	2,440	4,129	4,921	5,898	5,898	5,898
Finance lease liabilities	-	-	-	89	89	89
Operating lease liabilities	-	-	2,416	1,184	1,184	1,184
Other liabilities	<u>2,112</u>	<u>2,068</u>	<u>3,122</u>	<u>4,991</u>	<u>4,991</u>	<u>4,991</u>
<b>Total liabilities</b>	<b><u>14,495</u></b>	<b><u>49,141</u></b>	<b><u>26,767</u></b>	<b><u>28,225</u></b>	<b><u>28,087</u></b>	<b><u>28,631</u></b>
<b>Total stockholders' equity</b>	<b><u>123,712</u></b>	<b><u>140,457</u></b>	<b><u>161,991</u></b>	<b><u>172,439</u></b>	<b><u>176,258</u></b>	<b><u>197,723</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>138,207</u></b>	<b><u>189,598</u></b>	<b><u>188,758</u></b>	<b><u>200,664</u></b>	<b><u>204,345</u></b>	<b><u>226,354</u></b>

Source: Company filings and Taglich Brothers' estimates



UFP Technologies, Inc.

Annual Income Statements  
(in thousands \$)

	<u>2017A</u>	<u>2018A</u>	<u>2019A</u>	<u>2020E</u>	<u>2021E</u>
Net sales	147,842	190,455	198,381	<b>180,420</b>	<b>200,000</b>
Cost of sales	<u>112,355</u>	<u>142,147</u>	<u>144,422</u>	<b>135,755</b>	<b>144,475</b>
Gross profit	35,487	48,308	53,959	<b>44,665</b>	<b>55,525</b>
Extraordinary items	(51)	938	-	<b>298</b>	-
SG&A	<u>23,845</u>	<u>27,758</u>	<u>29,251</u>	<b>28,308</b>	<b>29,400</b>
Operating income	11,693	19,612	24,708	<b>16,059</b>	<b>26,125</b>
Non-operating (expenses) income	<u>166</u>	<u>(1,209)</u>	<u>(1,062)</u>	<b>(428)</b>	-
Income before taxes	11,859	18,403	23,646	<b>15,631</b>	<b>26,125</b>
Income tax (benefit)	<u>2,649</u>	<u>4,092</u>	<u>3,896</u>	<b>3,235</b>	<b>6,531</b>
Net Income / (Loss)	<u>9,210</u>	<u>14,311</u>	<u>19,750</u>	<b>12,396</b>	<b>19,594</b>
EPS	<u>1.26</u>	<u>1.93</u>	<u>2.63</u>	<b>1.64</b>	<b>2.59</b>
Shares Outstanding	7,337	7,430	7,516	<b>7,545</b>	<b>7,555</b>
<u>Margin Analysis</u>					
Gross margin	24.0%	25.4%	27.2%	<b>24.8%</b>	<b>27.8%</b>
SG&A	16.1%	14.6%	14.7%	<b>15.7%</b>	<b>14.7%</b>
Operating margin	7.9%	10.3%	12.5%	<b>8.9%</b>	<b>13.1%</b>
Pretax margin	8.0%	9.7%	11.9%	<b>8.7%</b>	<b>13.1%</b>
Tax rate	22.3%	22.2%	16.5%	<b>20.7%</b>	<b>25.0%</b>
<u>Year / Year Growth</u>					
Total Revenues	1.2%	28.8%	4.2%	<b>(9.1)%</b>	<b>10.9%</b>
Net Income	15.6%	55.4%	38.0%	<b>(37.2)%</b>	<b>58.1%</b>
EPS	14.6%	53.4%	36.4%	<b>(37.5)%</b>	<b>57.9%</b>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Quarterly Income Statements 2019A - 2021E  
(in thousands \$)

	<u>3/19A</u>	<u>6/19A</u>	<u>9/19A</u>	<u>12/19A</u>	<u>2019A</u>	<u>3/20A</u>	<u>6/20A</u>	<u>9/20A</u>	<u>12/20E</u>	<b>2020E</b>	<u>3/21E</u>	<u>6/21E</u>	<u>9/21E</u>	<u>12/21E</u>	<b>2021E</b>
Net sales	47,328	51,399	49,394	50,261	198,381	48,277	42,644	43,299	46,200	<b>180,420</b>	48,500	49,500	50,500	51,500	<b>200,000</b>
Cost of sales	<u>34,831</u>	<u>37,028</u>	<u>36,073</u>	<u>36,490</u>	<u>144,422</u>	<u>35,454</u>	<u>32,695</u>	<u>32,771</u>	<u>34,835</u>	<b>135,755</b>	<u>35,405</u>	<u>35,888</u>	<u>36,360</u>	<u>36,823</u>	<b>144,475</b>
Gross profit	12,497	14,371	13,321	13,771	53,959	12,823	9,949	10,528	11,365	<b>44,665</b>	13,095	13,613	14,140	14,678	<b>55,525</b>
Extraordinary items	-	-	-	-	-	(4)	290	12	-	<b>298</b>	-	-	-	-	-
SG&A	<u>7,244</u>	<u>7,799</u>	<u>7,183</u>	<u>7,025</u>	<u>29,251</u>	<u>7,752</u>	<u>6,665</u>	<u>6,791</u>	<u>7,100</u>	<b>28,308</b>	<u>7,200</u>	<u>7,300</u>	<u>7,400</u>	<u>7,500</u>	<b>29,400</b>
Operating income	5,253	6,572	6,138	6,746	24,708	5,075	2,994	3,725	4,265	<b>16,059</b>	5,895	6,313	6,740	7,177	<b>26,125</b>
Non-operating (expenses) income	<u>(470)</u>	<u>(392)</u>	<u>(189)</u>	<u>(11)</u>	<u>(1,062)</u>	<u>(343)</u>	<u>(68)</u>	<u>(17)</u>	<u>-</u>	<b>(428)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before taxes	4,783	6,180	5,949	6,735	23,646	4,732	2,926	3,708	4,265	<b>15,631</b>	5,895	6,313	6,740	7,177	<b>26,125</b>
Income tax (benefit)	<u>1,049</u>	<u>1,582</u>	<u>308</u>	<u>958</u>	<u>3,896</u>	<u>841</u>	<u>608</u>	<u>720</u>	<u>1,066</u>	<b>3,235</b>	<u>1,474</u>	<u>1,578</u>	<u>1,685</u>	<u>1,794</u>	<b>6,531</b>
Net Income / (Loss)	<u>3,734</u>	<u>4,598</u>	<u>5,641</u>	<u>5,777</u>	<u>19,750</u>	<u>3,891</u>	<u>2,318</u>	<u>2,988</u>	<u>3,199</u>	<b>12,396</b>	<u>4,421</u>	<u>4,734</u>	<u>5,055</u>	<u>5,383</u>	<b>19,594</b>
EPS	<u>0.50</u>	<u>0.62</u>	<u>0.75</u>	<u>0.77</u>	<u>2.63</u>	<u>0.52</u>	<u>0.31</u>	<u>0.40</u>	<u>0.42</u>	<b>1.64</b>	<u>0.59</u>	<u>0.63</u>	<u>0.67</u>	<u>0.71</u>	<b>2.59</b>
Shares Outstanding	7,466	7,467	7,493	7,545	7,516	7,538	7,532	7,555	7,555	<b>7,545</b>	7,555	7,555	7,555	7,555	<b>7,555</b>
<u>Margin Analysis</u>															
Gross margin	26.4%	28.0%	27.0%	27.4%	27.2%	26.6%	23.3%	24.3%	24.6%	<b>24.8%</b>	27.0%	27.5%	28.0%	28.5%	<b>27.8%</b>
SG&A	15.3%	15.2%	14.5%	14.0%	14.7%	16.1%	15.6%	15.7%	15.4%	<b>15.7%</b>	14.8%	14.7%	14.7%	14.6%	<b>14.7%</b>
Operating margin	11.1%	12.8%	12.4%	13.4%	12.5%	10.5%	7.0%	8.6%	9.2%	<b>8.9%</b>	12.2%	12.8%	13.3%	13.9%	<b>13.1%</b>
Pretax margin	10.1%	12.0%	12.0%	13.4%	11.9%	9.8%	6.9%	8.6%	9.2%	<b>8.7%</b>	12.2%	12.8%	13.3%	13.9%	<b>13.1%</b>
Tax rate	21.9%	25.6%	5.2%	14.2%	16.5%	17.8%	20.8%	19.4%	25.0%	<b>20.7%</b>	25.0%	25.0%	25.0%	25.0%	<b>25.0%</b>
<u>Year / Year Growth</u>															
Total Revenues	10.2%	4.9%	3.3%	(0.9)%	4.2%	2.0%	(17.0)%	(12.3)%	(8.1)%	<b>(9.1)%</b>	0.5%	16.1%	16.6%	11.5%	<b>10.9%</b>
Net Income	110.1%	15.2%	36.5%	31.0%	38.0%	4.2%	(49.6)%	(47.0)%	(44.6)%	<b>(37.2)%</b>	13.6%	104.2%	69.2%	68.3%	<b>58.1%</b>
EPS	107.7%	14.4%	35.4%	29.6%	36.4%	3.2%	(50.0)%	(47.5)%	(44.7)%	<b>(37.5)%</b>	13.4%	103.6%	69.2%	68.3%	<b>57.9%</b>

Source: Company filings and Taglich Brothers' estimates

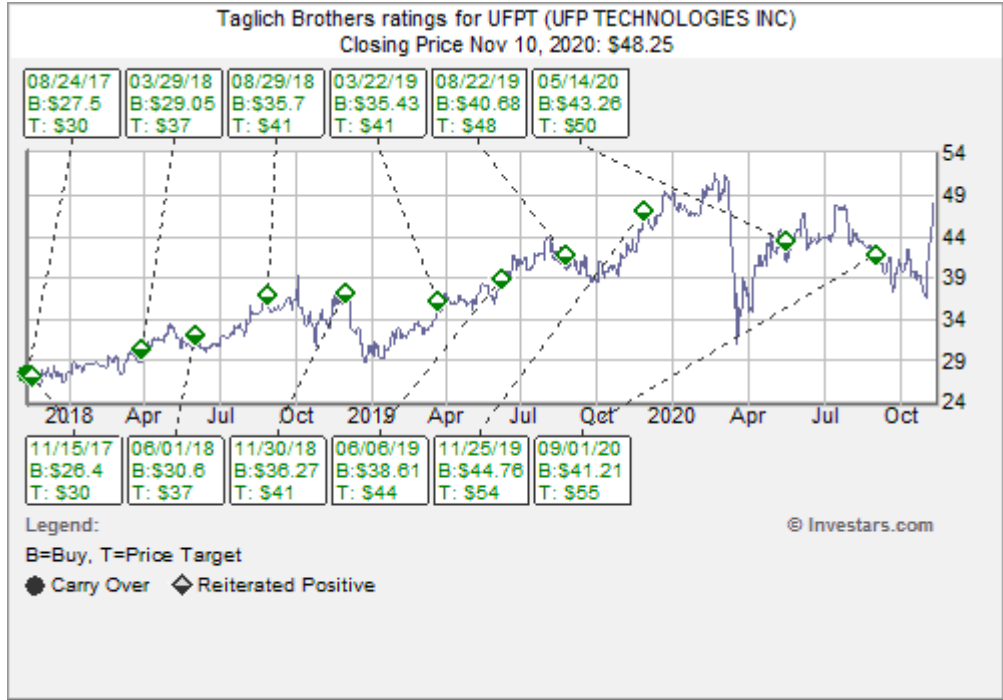
UFP Technologies, Inc.

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

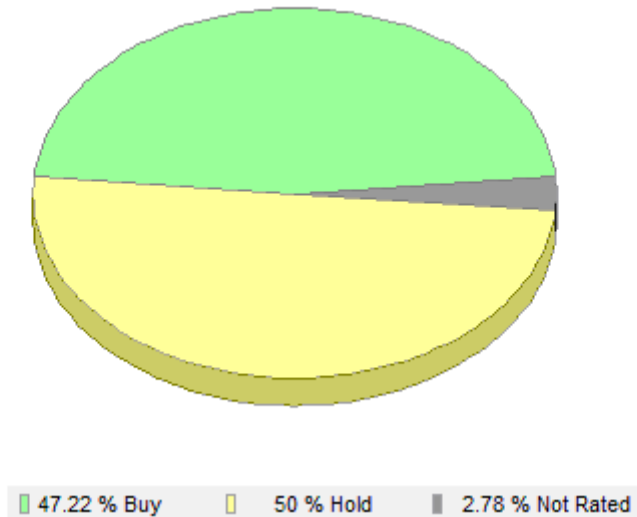
	2017A	2018A	2019A	9M20A	2020E	2021E
Net income	9,210	14,311	19,750	9,197	12,396	19,594
Depreciation & amortization	5,635	7,831	8,172	6,210	7,587	7,441
(Gain) loss on disposal of property, plant and equipment	7	(47)	-	298	298	-
Share-based compensation	1,068	1,212	1,591	1,338	1,800	1,800
Deferred income taxes	(1,019)	1,881	792	977	977	-
Cash earnings	14,901	25,188	30,305	18,020	23,058	28,835
<i>Changes in assets and liabilities</i>						
Receivables	(132)	(2,556)	(327)	1,284	2,587	(2,828)
Inventories	1,288	(2,295)	1,300	(1,212)	(1,118)	(1,246)
Prepaid expenses	446	(249)	(98)	(1,396)	(1,396)	-
Refundable income taxes	(210)	(1,268)	2,006	(297)	(297)	-
Other assets	(228)	(76)	110	76	76	-
Accounts payable	93	1,113	(2,472)	(255)	(52)	291
Accrued expenses and other	1,065	1,472	25	(68)	(184)	253
Deferred revenue	-	35	67	(628)	(628)	-
Other liabilities	246	(44)	313	1,214	811	-
(Increase) decrease in working capital	2,568	(3,868)	924	(1,282)	(200)	(3,530)
<b>Net Cash Provided by Operations</b>	<b>17,469</b>	<b>21,320</b>	<b>31,229</b>	<b>16,738</b>	<b>22,858</b>	<b>25,304</b>
Additions to property, plant and equipment	(10,382)	(5,428)	(5,778)	(3,057)	(4,000)	(5,000)
Cash paid for acquisitions (net)	-	(76,978)	-	-	-	-
Proceeds from sale of fixed assets	7	77	4	105	105	-
<b>Net Cash Used in Investing</b>	<b>(10,375)</b>	<b>(82,329)</b>	<b>(5,774)</b>	<b>(2,952)</b>	<b>(3,895)</b>	<b>(5,000)</b>
Proceeds from line of credit	-	36,000	-	5,500	5,500	-
Payments on line of credit	-	(28,000)	(8,000)	(5,500)	(5,500)	-
Proceeds from long-term borrowings	-	20,000	-	-	-	-
Principal payments on finance lease obligation	-	-	-	(7)	(7)	-
Proceeds from exercise of stock options	677	1,270	705	474	632	632
Payment of statutory withholdings for stock options exercised	(296)	(144)	(512)	(561)	(561)	(561)
Principal repayments of long-term debt	(856)	(2,857)	(17,143)	-	-	-
<b>Net Cash Provided by (Used in) Financing</b>	<b>(475)</b>	<b>26,269</b>	<b>(24,950)</b>	<b>(94)</b>	<b>64</b>	<b>71</b>
<b>Net Change in Cash</b>	<b>6,619</b>	<b>(34,740)</b>	<b>505</b>	<b>13,692</b>	<b>19,027</b>	<b>20,375</b>
<b>Cash - Beginning of Period</b>	<b>31,359</b>	<b>37,978</b>	<b>3,238</b>	<b>3,743</b>	<b>3,743</b>	<b>22,770</b>
<b>Cash - End of Period</b>	<b>37,978</b>	<b>3,238</b>	<b>3,743</b>	<b>17,435</b>	<b>22,770</b>	<b>43,146</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	3	15
Hold		
Sell		
Not Rated		

### **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**

Accuray Inc. (NASDAQ: ARAY)  
Atrion Corp. (NASDAQ: ATRI)  
CECO Environmental Corp. (NASDAQ: CECE)  
Cutera Inc. (NASDAQ: CUTR)  
DMC Global Inc. (NASDAQ: BOOM)  
Graham Corp. (NYSE: GHM)  
Harvard Bioscience Inc. (NASDAQ: HBIO)  
Hurco Companies Inc. (NASDAQ: HURC)  
Lantheus Holdings Inc. (NASDAQ: LNTH)  
Lydall Inc. (NYSE: LDL)  
Meridian Bioscience Inc. (NASDAQ: VIVO)  
OraSure Technologies Inc. (NASDAQ: OSUR)  
RTI Surgical Holdings Inc. (NASDAQ: RTIX)  
SeaSpine Holdings Corp. (NASDAQ: SPNE)  
Surmodics Inc. (NASDAQ: SRDX)

### **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.

**Discontinued** – Research coverage discontinued due to the acquisition of the company, termination of research services (includes 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.