

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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November 25, 2019

UFPT \$44.76 — (NASDAQ CM)

	2017A	2018A	2019E	2020E
Revenues (millions)	\$147.81	\$190.5	\$199.1	\$210.5
Earnings per share (diluted)	\$1.26	\$1.93	\$2.47	\$2.71

52-Week range	\$46.42 – \$27.80	Fiscal year ends:	December
Shares outstanding as of 11/1/19	7.4 million	Revenue per share (TTM)	\$26.60
Approximate float	6.2 million	Price/Sales (TTM)	1.7X
Market capitalization	\$331 million	Price/Sales (2020)E	1.6X
Tangible book value/share	\$11.08	Price/Earnings (TTM)	18.2X
Price/tangible book	4.0X	Price/Earnings (2020)E	16.5X

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)

Key investment considerations:

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$54.00 per share from \$48.00 to reflect a higher industry valuation offset in part by a slight reduction in our 2020 EPS estimate.

The company's 2018 acquisition of Dielectrics resulted in the majority of UFPT's sales being generated from the fast growing medical market, which generated almost two-thirds of total sales in 3Q19.

The contribution from new medical programs awarded in 2019 and continued growth of the company's product offerings for its medical market customers should drive higher sales and margin expansion through 2020.

We project gross margins of 27.3% in 2020, up from an estimated 27% in 2019 and 25.4% in 2018.

Our cash flow projections should enable the company to pay off its long-term debt by 1Q20 and end 2020 with over \$31 million in cash.

3Q19 revenue (10Q released on 11/8/19) increased 3.3% to \$49.4 million with EPS of \$0.75, up from \$0.56 in the year ago period. We projected sales of \$51.5 million and EPS of \$0.56.

For 2019, we project revenue growth of 4.6% to \$199.1 million and EPS of \$2.47. We previously forecast revenue of \$202 million and EPS of \$2.27 per share. Our forecast primarily reflects 3Q19 results.

For 2020, we project revenue growth of 5.7% to \$210.5 million and EPS of \$2.71 per share. We previously forecast revenue of \$214 million and EPS of \$2.81. Our revised forecast reflects a full year's contribution from new medical programs awarded in 2019 and continued growth of the company's medical product offerings, offset in part by continued softness in the consumer and electronics markets.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$54.00 per share from \$48.00 to reflect a higher industry valuation offset in part by a slight reduction in our 2020 EPS estimate.

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 segment. In 2018, Dielectrics added sales of \$36.2 million on top of 5.7% organic growth in UFPT's sales within the medical market. We project the contribution from new medical programs in 2019 and continued growth of the company's product offerings for its medical market customers should result in higher sales and margin expansion through 2020.

Shares of UFP Technologies trade at a forward multiple that is lower than its peers (see chart below). We modified our peer group since our last report to better reflect the company's focus on medical market products (approximately 65% of 3Q19 total sales). We believe UFPT's multiple should expand from current levels given earnings growth that should outperform its peers. With the acquisition of Dielectrics and continued strong growth in medical market sales, we project 18% EPS growth for UFPT (excludes tax benefits) versus 13% for its competitors in 2020.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2020 P/E	Projected EPS Growth to 2020
Atrion Corp	ATRI	729.2	1,353	NA	NA	NA
Lantheus Holdings Inc	LNTH	20.14	790	18.8	17.4	4%
DMC Global Inc	BOOM	45.38	665	12.8	11.6	5%
Surmodics Inc	SRDX	39.86	538	56.1	NMF	NMF
OraSure Technologies Inc	OSUR	7.86	485	17.9	34.2	-23%
Cutera Inc	CUTR	37.5	534	NMF	67.0	NMF
Meridian Bioscience Inc	VIVO	8.79	375	12.9	20.0	42%
Lydall Inc	LDL	18.3	321	13.1	11.7	48%
CECO Environmental Corp	CECE	7.66	270	19.2	12.8	30%
SeaSpine Holdings Corp	SPNE	12.96	247	NMF	NMF	-28%
Accuray Inc	ARAY	2.76	245	NMF	NMF	NMF
Hurco Companies Inc	HURC	34.39	233	NA	NA	NA
Graham Corp	GHM	21.28	210	NA	20.5	25%
RTI Surgical Holdings Inc	RTIX	1.86	137	37.2	31.0	NMF
Harvard Bioscience Inc	HBIO	2.88	110	16.9	13.1	16%
Peer Average				22.8	23.9	13%
Company						
UFP Technologies	UFPT	44.76	331	18.2	16.5	18%

Source: Taglich Brothers estimates, Thomson Reuters

We applied a multiple of 20X to our 2020 EPS projection of \$2.71 to obtain a year-ahead value of approximately \$54.00 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.

In 2018, almost 60% of UFPT's sales were to the medical device industry with the remaining industries accounting for between 5.6% (industrial) to 13.1% (consumer) 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 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 medical 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 2023. 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 35% 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 October 2018, the International Monetary Fund (IMF) lowered its global economic growth estimates to 3% for 2019 and 3.4% for 2020, down from its July 2019 estimates of 3.2% for 2019 and 3.5% for 2020. The IMF said that after slowing sharply in the last three quarters of 2018, the pace of global economic activity remains weak. Momentum in manufacturing activity has weakened substantially to levels not seen since the global financial crisis.

The IMF lowered its economic growth estimate for the US to 2.4% for 2019 but raised it to 2.1% for 2020. In July, the IMF projected US growth of 2.6% for 2019 and 1.9% for 2020. The IMF said that trade tensions have resulted in tariff increases between the US and China and have hurt business sentiment and confidence globally. While financial market sentiment has been undermined by these developments, a shift toward increased monetary policy accommodation in the US has been a counterbalancing force.

The advance estimate of US GDP growth (released on October 30, 2019) showed the US economy grew at an annual rate of 1.9% in 3Q19, down from 2% in 2Q19. The 3Q19 US GDP growth estimate primarily reflects increases in consumer and government spending, housing investment, and exports, while business and inventory investment decreased.

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

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 and 2020. The increase in high margin medical sales should boost margins through our forecast horizon.

2019 Forecast

For 2019, we project revenue growth of 4.6% to \$199.1 million and net income of \$18.4 million or \$2.47 per share. We previously forecast revenue of \$202 million and net income of \$16.9 million or \$2.27 per share. Our forecast primarily reflects 3Q19 results.

We project gross margins increasing to 27% from 25.4% in 2018, as higher margin medical sales continue to grow. SG&A expenses should increase to \$29.7 million from \$27.8 million due primarily to increased compensation costs. SG&A margins should increase to 14.9% from 14.6% in 2018. We project operating income growth of 22.3% to \$24 million with margins increasing to 12% from 10.3%. Our tax rate forecast is 19.4%.

In 2019, we project \$32.9 million cash from operations on cash earnings of \$29 million and a \$3.9 million decrease in working capital primarily due to an increase in other liabilities. We project a \$9.8 million increase in cash to \$13 million at the end of 2019 after debt repayments of \$18.1 million and \$5.5 million of capital expenditures.

2020 Forecast

For 2020, we project revenue growth of 5.7% to \$210.5 million and net income of \$20.2 million or \$2.71 per share. We previously forecast revenue of \$214 million and net income of \$21 million or \$2.81 per share. Our revised forecast reflects a full year's contribution from new medical programs awarded in 2019 and continued growth of the company's medical product offerings, offset in part by continued softness in the consumer and electronics markets.

We project gross margins increasing to 27.3% from our projected 27% in 2019 as higher margin medical sales continue to grow as a percentage of total sales. SG&A expenses should increase to \$30.4 million from our projected \$29.7 million in 2019 due primarily to increased compensation costs. SG&A margins should decrease to 14.4% from 14.9% in 2019. We project operating income growth of 12.6% to \$27 million with margins increasing to 12.8% from 12%. Our tax rate forecast is 25%.

In 2020, we project \$27.5 million cash from operations on cash earnings of \$29.4 million and a \$1.9 million increase in working capital primarily due to increased receivables. We project an \$18.4 million increase in cash to \$31.5 million at the end of 2020 after debt repayments of \$4.1 million and \$5.5 million of capital expenditures.

3Q and Nine-month 2019 Financial Results

3Q19 - Sales increased 3.3% to \$49.4 million with net income of \$5.6 million or \$0.75 per share, up from \$4.1 million or \$0.56 per share. We projected sales of \$51.5 million and net income of \$4.2 million or \$0.56 per share.

Growth was primarily due to increased sales to the medical and automotive markets of 16.5% and 8.2%, respectively. These increases were partially offset by a 15% decline in sales to the aerospace & defense market and a collective decline in sales to the consumer, electronics and industrial markets of 23.5%. The increase in sales to customers in the medical market was primarily due to strong sales at Dielectrics, as well as increased demand from legacy UFP medical customers. The increase in sales to the automotive market was primarily due to increased demand for the company's new products. The decline in sales to the aerospace & defense market was due primarily to timing issues. The decline in sales to customers in the consumer, electronics and industrial markets was primarily due to decreased demand for molded fiber packaging.

Gross profit increased to \$13.3 million from \$12.4 million and gross margins increased to 27% from 26% due to improved manufacturing overhead coverage and manufacturing efficiencies. SG&A expenses increased to \$7.2 million from \$6.5 million due primarily to increased compensation costs and management hires. Operating income increased to \$6.1 million or 12.4% of sales from \$5.9 million or 12.3% of sales.

Non-operating expense was \$189,000 compared to \$258,000. Interest expense decreased to \$165,000 from \$343,000 while other expense was \$24,000 versus other income of \$85,000 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 5.2%.

Nine-months 2019 - Sales increased 6% to \$148.1 million with net income of \$14 million or \$1.87 per share, up from \$9.9 million or \$1.34 per share.

Growth was primarily due to increased sales to the medical, automotive and aerospace & defense markets of 16.3%, 4.3% and 16%, respectively. These increases were partially offset by a collective decline in sales to the consumer, electronics and industrial markets of 20.2%. The increase in sales to customers in the medical market was primarily due to strong sales at Dielectrics (including on additional month of sales), as well as increased demand from legacy UFP medical customers. The increase in sales to customers in the aerospace & defense markets was primarily due to increased government spending. The decline in sales to customers in the consumer, electronics and industrial markets was primarily due to decreased demand for molded fiber packaging.

Gross profit increased to \$40.2 million from \$35.6 million and gross margins increased to 27.1% from 25.5% due to improved manufacturing overhead coverage and improved manufacturing efficiencies. SG&A expenses increased to \$22.2 million from \$20.6 million due primarily to increased compensation costs and management hires. Operating income increased to \$18 million or 12.1% of sales from \$14.1 million or 10.1% of sales.

Non-operating expense was \$1.1 million compared to \$851,000. Interest expense decreased to \$590,000 from \$988,000 while other expense was \$461,000 versus other income of \$137,000 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 17.4%.

Liquidity

At September 30, 2019, the company had \$11.4 million cash, a current ratio of 3X, tangible equity of \$82.8 million or \$11.08 per share, and \$15 million of debt for a debt to tangible equity ratio of approximately 0.2X.

Cash provided by operations in the first nine months of 2019 was \$22.4 million consisting primarily of cash earnings. Capital expenditures of \$4.4 million and a \$10.1 million pay down of debt resulted in an \$8.2 million increase in cash to \$11.4 million at September 30, 2019.

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, 2019, the applicable interest rate was 3% and the company was in compliance with all covenants.

	Income Statement (in thousands \$)	
	9M19A	9M18A
Net sales	148,120	139,758
Cost of sales	107,932	104,156
Gross profit	40,188	35,602
Extraordinary items	-	934
SG&A	22,226	20,550
Operating income	17,962	14,118
Interest exp, other inc and exp	(1,051)	(851)
Income before taxes	16,911	13,267
Income tax	2,938	3,366
Net Income / (Loss)	13,973	9,901
EPS	1.87	1.34
Shares Outstanding	7,476	7,406
<u>Margin Analysis</u>		
Gross margin	27.1%	25.5%
SG&A	15.0%	14.7%
Operating margin	12.1%	10.1%
Tax rate	17.4%	25.4%
<u>Year / Year Growth</u>		
Total Revenues	6.0%	
Net Income	41.1%	
EPS	39.8%	
Source: Company filings		

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 6.2 million in the float, liquidity issues must be considered. Average daily volume has been approximately 21,000 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>9/19A</u>	<u>2019E</u>	<u>2020E</u>
Cash and cash equivalents	31,359	37,978	3,238	11,390	13,038	31,465
Receivables	21,249	21,381	28,321	28,796	29,868	31,575
Inventories	14,151	12,863	19,576	19,219	20,058	21,117
Prepaid expenses	2,281	1,835	2,206	2,659	2,659	2,659
Refundable income taxes	<u>807</u>	<u>1,017</u>	<u>2,285</u>	<u>2,036</u>	<u>2,036</u>	<u>2,036</u>
Total current assets	69,847	75,074	55,626	64,100	67,659	88,852
Net property, plant and equipment	48,516	53,652	57,667	57,080	51,515	50,664
Goodwill	7,322	7,322	51,838	51,838	51,838	51,838
Intangible assets	318	-	22,232	21,289	20,975	19,718
Other assets	<u>1,931</u>	<u>2,159</u>	<u>2,235</u>	<u>6,031</u>	<u>6,031</u>	<u>6,031</u>
Total assets	<u>127,934</u>	<u>138,207</u>	<u>189,598</u>	<u>200,338</u>	<u>198,018</u>	<u>217,103</u>
Current portion of long-term debt	856	-	2,857	2,857	2,857	2,857
Deferred revenue	-	297	2,507	2,532	2,532	2,532
Accounts payable	4,002	4,180	6,836	6,825	6,867	7,230
Operating lease liabilities	-	-	-	821	821	821
Accrued expenses	<u>4,698</u>	<u>5,466</u>	<u>8,458</u>	<u>8,326</u>	<u>8,843</u>	<u>9,348</u>
Total current liabilities	9,556	9,943	20,658	21,361	21,920	22,788
Long-term debt	-	-	22,286	12,143	4,143	-
Deferred income taxes	3,459	2,440	4,129	5,381	5,381	5,381
Other liabilities	<u>1,866</u>	<u>2,112</u>	<u>2,068</u>	<u>5,564</u>	<u>5,564</u>	<u>5,564</u>
Total liabilities	<u>14,881</u>	<u>14,495</u>	<u>49,141</u>	<u>44,449</u>	<u>37,008</u>	<u>33,733</u>
Total stockholders' equity	<u>113,053</u>	<u>123,712</u>	<u>140,457</u>	<u>155,889</u>	<u>161,010</u>	<u>183,370</u>
Total liabilities & stockholders' equity	<u>127,934</u>	<u>138,207</u>	<u>189,598</u>	<u>200,338</u>	<u>198,018</u>	<u>217,103</u>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements
(in thousands \$)

	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	2019E	2020E
Net sales	146,132	147,842	190,455	199,121	210,500
Cost of sales	<u>111,482</u>	<u>112,355</u>	<u>142,147</u>	145,417	153,096
Gross profit	34,650	35,487	48,308	53,704	57,404
Extraordinary items	(1,692)	(51)	938	-	-
SG&A	<u>24,105</u>	<u>23,845</u>	<u>27,758</u>	29,726	30,400
Operating income	12,237	11,693	19,612	23,978	27,004
Non-operating (expenses) income	<u>80</u>	<u>166</u>	<u>(1,209)</u>	(1,131)	(30)
Income before taxes	12,317	11,859	18,403	22,847	26,974
Income tax (benefit)	<u>4,347</u>	<u>2,649</u>	<u>4,092</u>	4,423	6,744
Net Income / (Loss)	<u>7,970</u>	<u>9,210</u>	<u>14,311</u>	18,424	20,231
EPS	<u>1.10</u>	<u>1.26</u>	<u>1.93</u>	2.47	2.71
Shares Outstanding	7,275	7,337	7,430	7,474	7,470
<u>Margin Analysis</u>					
Gross margin	23.7%	24.0%	25.4%	27.0%	27.3%
SG&A	16.5%	16.1%	14.6%	14.9%	14.4%
Operating margin	8.4%	7.9%	10.3%	12.0%	12.8%
Pretax margin	8.4%	8.0%	9.7%	11.5%	12.8%
Tax rate	35.3%	22.3%	22.2%	19.4%	25.0%
<u>Year / Year Growth</u>					
Total Revenues	5.2%	1.2%	28.8%	4.6%	5.7%
Net Income	5.0%	15.6%	55.4%	28.7%	9.8%
EPS	4.2%	14.6%	53.4%	28.0%	9.9%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

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

	3/18A	6/18A	9/18A	12/18A	2018A	3/19A	6/19A	9/19A	12/19E	2019E	3/20E	6/20E	9/20E	12/20E	2020E
Net sales	42,931	49,019	47,808	50,697	190,455	47,328	51,399	49,394	51,000	199,121	49,000	53,200	53,800	54,500	210,500
Cost of sales	32,746	36,033	35,377	37,991	142,147	34,831	37,028	36,073	37,485	145,417	36,015	38,836	39,005	39,240	153,096
Gross profit	10,185	12,986	12,431	12,706	48,308	12,497	14,371	13,321	13,515	53,704	12,985	14,364	14,795	15,260	57,404
Extraordinary items	1,029	(100)	5	4	938	-	-	-	-	-	-	-	-	-	-
SG&A	6,592	7,417	6,541	7,208	27,758	7,244	7,799	7,183	7,500	29,726	7,550	7,600	7,600	7,650	30,400
Operating income	2,564	5,669	5,885	5,494	19,612	5,253	6,572	6,138	6,015	23,978	5,435	6,764	7,195	7,610	27,004
Non-operating (expenses) income	(198)	(394)	(258)	(358)	(1,209)	(470)	(392)	(189)	(80)	(1,131)	(30)	-	-	-	(30)
Income before taxes	2,366	5,275	5,627	5,136	18,403	4,783	6,180	5,949	5,935	22,847	5,405	6,764	7,195	7,610	26,974
Income tax (benefit)	589	1,285	1,493	726	4,092	1,049	1,582	308	1,484	4,423	1,351	1,691	1,799	1,903	6,744
Net Income / (Loss)	1,777	3,990	4,134	4,410	14,311	3,734	4,598	5,641	4,451	18,424	4,054	5,073	5,396	5,708	20,231
EPS	0.24	0.54	0.56	0.59	1.93	0.50	0.62	0.75	0.60	2.47	0.54	0.68	0.72	0.76	2.71
Shares Outstanding	7,378	7,413	7,435	7,464	7,430	7,466	7,467	7,493	7,470	7,474	7,470	7,470	7,470	7,470	7,470
<u>Margin Analysis</u>															
Gross margin	23.7%	26.5%	26.0%	25.1%	25.4%	26.4%	28.0%	27.0%	26.5%	27.0%	26.5%	27.0%	27.5%	28.0%	27.3%
SG&A	15.4%	15.1%	13.7%	14.2%	14.6%	15.3%	15.2%	14.5%	14.7%	14.9%	15.4%	14.3%	14.1%	14.0%	14.4%
Operating margin	6.0%	11.6%	12.3%	10.8%	10.3%	11.1%	12.8%	12.4%	11.8%	12.0%	11.1%	12.7%	13.4%	14.0%	12.8%
Pretax margin	5.5%	10.8%	11.8%	10.1%	9.7%	10.1%	12.0%	12.0%	11.6%	11.5%	11.0%	12.7%	13.4%	14.0%	12.8%
Tax rate	24.9%	24.4%	26.5%	14.1%	22.2%	21.9%	25.6%	5.2%	25.0%	19.4%	25.0%	25.0%	25.0%	25.0%	25.0%
<u>Year / Year Growth</u>															
Total Revenues	15.9%	29.4%	34.0%	36.2%	28.8%	10.2%	4.9%	3.3%	0.6%	4.6%	3.5%	3.5%	8.9%	6.9%	5.7%
Net Income	(18.1)%	51.7%	143.9%	62.4%	55.4%	110.1%	15.2%	36.5%	0.9%	28.7%	8.6%	10.3%	(4.3)%	28.2%	9.8%
EPS	(19.0)%	49.9%	141.2%	60.4%	53.4%	107.7%	14.4%	35.4%	0.9%	28.0%	8.5%	10.3%	(4.0)%	28.2%	9.9%

Source: Company filings and Taglich Brothers' estimates

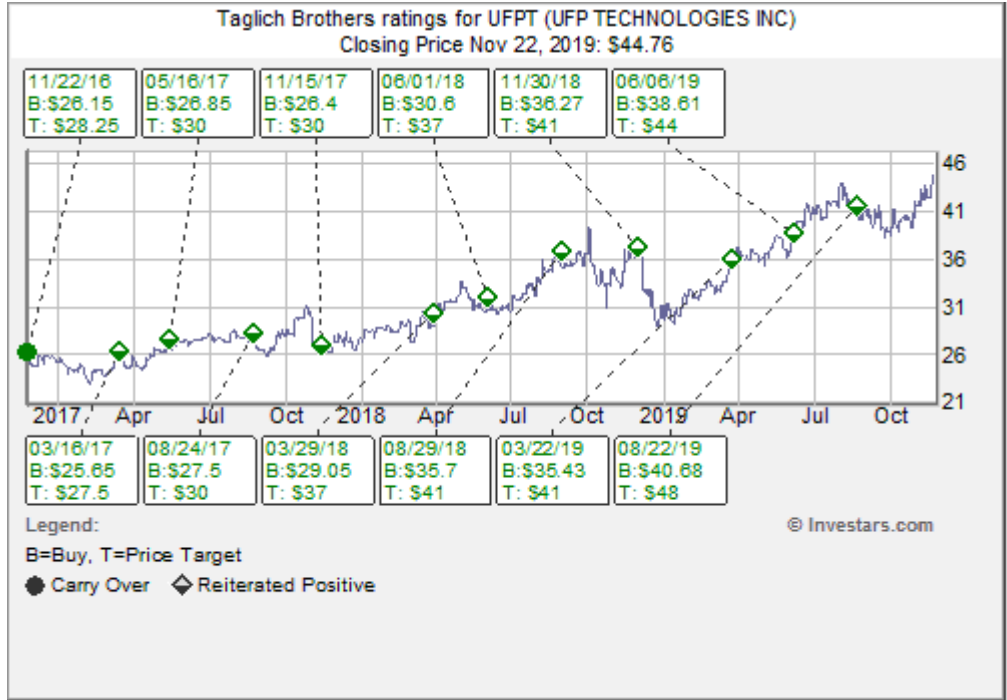
UFP Technologies, Inc.

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

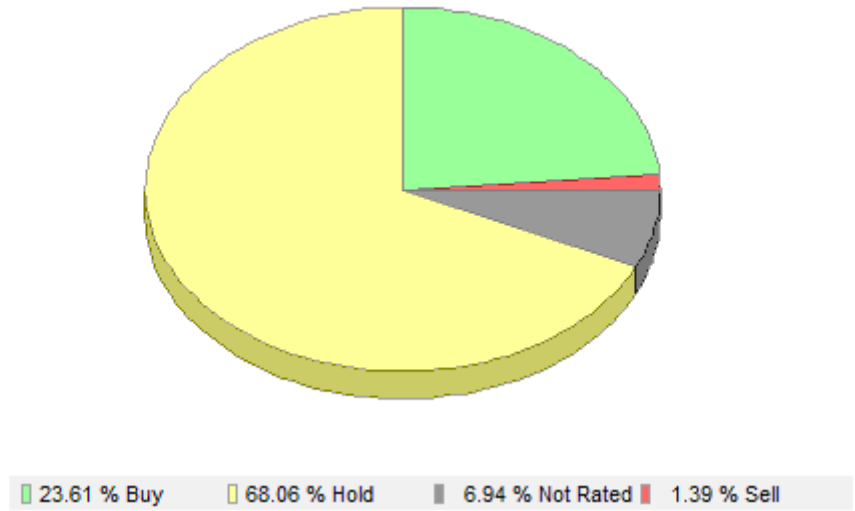
	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	<u>9M19A</u>	<u>2019E</u>	<u>2020E</u>
Net income	7,970	9,210	14,311	13,973	18,424	20,231
Depreciation & amortization	5,634	5,635	7,831	6,120	7,722	7,608
(Gain) loss on disposal of property, plant and equipment	2	7	(47)	-	-	-
Share-based compensation	1,056	1,068	1,212	1,169	1,600	1,600
Excess tax benefit on share-based compensation	(145)	-	-	-	-	-
Deferred income taxes	<u>576</u>	<u>(1,019)</u>	<u>1,881</u>	<u>1,252</u>	<u>1,252</u>	<u>-</u>
Cash earnings	15,093	14,901	25,188	22,514	28,998	29,439
<i>Changes in assets and liabilities</i>						
Receivables	(3,768)	(132)	(2,556)	(475)	(1,547)	(1,707)
Inventories	51	1,288	(2,295)	357	(482)	(1,059)
Prepaid expenses	(1,351)	446	(249)	(453)	(453)	-
Refundable income taxes	209	(210)	(1,268)	249	249	-
Other assets	(97)	(228)	(76)	35	1,712	-
Accounts payable	(683)	93	1,113	(220)	1,031	363
Accrued expenses and other	(361)	1,065	1,472	689	385	505
Deferred revenue	-	-	35	25	25	-
Retirement and other liabilities	<u>213</u>	<u>246</u>	<u>(44)</u>	<u>(335)</u>	<u>2,996</u>	<u>-</u>
(Increase) decrease in working capital	(5,787)	2,568	(3,868)	(128)	3,916	(1,898)
Net Cash Provided by Operations	9,306	17,469	21,320	22,386	32,914	27,540
Additions to property, plant and equipment	(7,206)	(10,382)	(5,428)	(4,381)	(5,500)	(5,500)
Cash paid for acquisitions (net)	-	-	(76,978)	-	-	-
Proceeds from sale of fixed assets	<u>14</u>	<u>7</u>	<u>77</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Used in Investing	(7,192)	(10,375)	(82,329)	(4,381)	(5,500)	(5,500)
Proceeds from line of credit	-	-	36,000	-	-	-
Payments on line of credit	-	-	(28,000)	(8,000)	(8,000)	-
Proceeds from long-term borrowings	-	-	20,000	-	-	-
Tax benefit from exercise of non-qualified stock options	145	-	-	-	-	-
Proceeds from exercise of stock options	529	677	1,270	561	800	800
Payment of statutory withholdings for stock options exercised	(219)	(296)	(144)	(271)	(271)	(271)
Principal repayments of long-term debt	<u>(1,014)</u>	<u>(856)</u>	<u>(2,857)</u>	<u>(2,143)</u>	<u>(10,143)</u>	<u>(4,143)</u>
Net Cash Provided by (Used in) Financing	(559)	(475)	26,269	(9,853)	(17,614)	(3,614)
Net Change in Cash	1,555	6,619	(34,740)	8,152	9,800	18,426
Cash - Beginning of Period	<u>29,804</u>	<u>31,359</u>	<u>37,978</u>	<u>3,238</u>	<u>3,238</u>	<u>13,038</u>
Cash - End of Period	<u>31,359</u>	<u>37,978</u>	<u>3,238</u>	<u>11,390</u>	<u>13,038</u>	<u>31,465</u>

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	10
Hold		
Sell		
Not Rated	1	25

Important Disclosures

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

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.

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.

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.