Initial Research Report

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

Alpha Pro Tech, Ltd.

Rating: Buy

Howard Halpern

August 12, 2020

APT $16.53 — (NYSE MKT)

	2017 A	2018 A	2019 A	*2020 E**	*2021 E*
Net Sales (in millions)	$44.0	$46.6	$46.7	***$104.5***	***$146.8***
Earnings (loss) per share	$0.18	$0.26	$0.23	***$1.89***	***$2.66***

52-Week range	$41.59 – $3.20	Fiscal year ends:	December
Shares outstanding a/o 08/05/20	13.6 million	Revenue/shares (ttm)*	$4.99
Approximate float	11.2 million	Price/Sales (ttm)	3.3X
Market Capitalization	$225 million	Price/Sales (2021) E	1.6X
Tangible Book value/shr	$3.44	Price/Earnings (ttm)	21.8X
Price/Book	4.8X	Price/Earnings (2021) E	6.2X

** 1Q20 excludes $2 million nonrecurring tax benefit due to the exercise of disqualified incentive stock options and non-qualified stock options*

Alpha Pro Tech, Ltd., owns and operates Alpha Pro Tech, Inc. and Alpha ProTech Engineered Products, Inc. The company is a vertically integrated developer, manufacturer and marketer of disposable protective apparel for the industrial, clean room, medical, and dental markets. The products in this segment include shoe covers, bouffant caps, coveralls, gowns, frocks and lab coats, as well as masks (including N-95) and face shields. The building supply segment, which is also vertically integrated, manufactures and markets a line of construction weatherization products, including building wrap and roof underlayment, as well as other woven materials.

Key Investment Considerations:

Initiating Alpha Pro Tech, Ltd., with a Buy rating and 12-month price target of $32.50 per share based on our 2021 EPS forecast.

Alpha Pro Tech, Ltd., has an opportunity to grow sales and earnings through our forecast period due primarily to the manufacturing and distribution of N-95 masks and face shields. IBISWorld projects the US personal protective equipment market should grow 2.2% annually to $6.4 billion in 2025, up from $5.7 billion in 2020. To meet the increasing demand for N-95 masks, APT expanded production capacity at its Utah facility in 2020 and when phase 2 of its expansion is completed, production capacity should exceed $100 million in 2021.

Our outlook for the company's division that produces disposal masks/shields, as well as disposable productive apparel, should be supported through our forecast period due primarily to the COVID-19 pandemic environment that is requiring individuals and medical professionals, especially dentists, to wear face masks. Growth in 2021 should be supported by existing customer reorders and the rebuilding of PPE stockpiles.

In 1H20, sales increased 84% to $43.7 million reflecting disposable protective apparel segment sales nearly tripling to $28.6 million from $10.5 million in 1H19. The increase is primarily due to 2Q20 results that should continue in 2H20 as APT expects to fulfill over $37 million in N-95 mask and face shields orders combined.

1H20 results has seen APT significantly grow its cash balance per share to $1.82 at June 30, 2020 from $0.48 per share at December 31, 2019.

For 2020, we project net income $26.1 million or $1.89 per share on sales growth of nearly 124% to $104.5 million. Our forecast reflects 1H20 results and expected order fulfillment in 2H20.

For 2021, we project EPS of $2.66 on sales growth of 40.5% to $146.8 million. Our forecast reflects continued growth for APT's N-95 mask and face shields, as well as 12.4% growth in the buildings supply segment.

Please view our Disclosures pages 17 - 19

Appreciation Potential

Initiating Alpha Pro Tech, Ltd., with a Buy rating and 12-month price target of $32.50 per share. Our rating and price target reflects projected earnings and growth in the company's cash balance through our forecast period. Our 2021 earnings forecast should be supported by the company's ability to manufacture and distribute N-95 masks and face shields at an unprecedented rate in order to meet US demand, and eventually demand from international markets. APT anticipates completing the expansion of plant capacity (phase 2) in Utah for production of N-95 face masks before the end of 2020. Entering 2021, the company's plant capacity should exceed $100 million for the production of N-95 masks. Additionally, we expect the company's building supply segment to grow by at least 12.4% to $33 million in 2021.

As of August 1, 2020, the company had booked $66 million (up from $46.8 million as of May 1, 2020) in N-95 mask orders (since January 27, 2020) of which $12 million was fulfilled in 1H20. In 2H20, the company anticipates approximately $31 million of backlog orders to be fulfilled for its N-95 face masks and approximately $23 million of its N-95 masks backlog being fulfilled in 2021. We anticipate continued growth in the company's booked orders primarily driven by the COVID-19 pandemic environment and researchers issuing reports that show the best type of protective masks to wear are N-95 type masks.

Due primarily to strong earnings growth, the company's cash position increased to $24.7 million (or $1.82 per share) at June 30, 2020, up from $6.5 million (or $0.48 per share) at December 31, 2019. We project the company's cash balance reaching nearly $49.8 million (or $3.66 per share) in 2021.

Our 12-month price target of $32.50 per share implies shares could nearly double over the next twelve months. According to finviz, the average forward price-to-earnings multiple for companies with similar market capitalizations in Building Products and Apparel Manufacturing sectors is 13.7X, compared to APT's forward P/E multiple of 6.2X. We anticipate investors are likely to accord Alpha Pro Tech, Ltd. the sector multiple given its forecasted EPS growth of nearly 41% in 2021. We applied the current sector P/E multiple of 13.7X to our 2021 EPS forecast of $2.66, discounted for execution risk, to obtain a year-ahead price target of approximately $32.50 per share.

A higher valuation of APT is likely to be supported by quarterly sales and EPS growth, as well as showing it has the capability to meet the unprecedented demand from its customers for personal protective N-95 masks.

Alpha Pro Tech, Ltd. shares are best suited for investors seeking exposure to a company striving to meet the demand for disposable personal protective apparel, N-95 masks, and face shields in the COVID-19 pandemic environment that could last beyond 2021, as well as supporting new and existing building supply customers.

Overview

Alpha Pro Tech, Ltd., headquartered in Ontario, Canada, owns and operates Alpha Pro Tech, Inc. and Alpha ProTech Engineered Products, Inc. The company maintains three vertically integrated production centers that produce innovative and high quality products within its disposable protective apparel and engineered products segments.

Alpha Pro Tech develops, manufactures and markets disposable protective apparel for the industrial, clean room, medical, and dental markets. The products sold in the US include shoe covers, bouffant caps, coveralls, gowns, frocks and lab coats, as well as face masks and face shields. In the US, protective apparel and face shields are manufactured at the company's facility in Nogales, Arizona with masks (including N-95 masks) manufactured in Salt Lake City, Utah. The Alpha ProTech Engineered Products segment manufactures and markets a line of construction weatherization products with the primary products including building wraps and synthetic roof underlayment, as well as other woven materials. In the US, the company's engineered products are manufactured in Valdosta, Georgia.

Target markets for all the company's products include the manufacturing of pharmaceuticals, bio-pharmaceutical manufacturing and medical device manufacturing, lab animal research, high technology electronics manufacturing which includes the semi-conductor market, medical, dental, as well as construction supply and roofing distributors.

<u>History</u>

The company was established and become publicly traded in 1989 through various acquisitions which added protective apparel, automated shoe covers and lamination capabilities.

In 2005, its engineered products subsidiary entered into a joint venture with a manufacturer in India, Maple Industries, for the production of building products. Under a joint venture agreement, a private company, Harmony Plastics Private Limited, was created with ownership interests of nearly 42% owned by the engineered products subsidiary and approximately 58% owned by Maple Industries and associates. This joint venture manufactures housewrap, synthetic roof underlayment, and provides for future capacity for sales of specialty roofing component products, as well as manufacturing disposable protective apparel garments.

Product Portfolio

This line of products demonstrates the company's core capabilities of creating proprietary products designed to protect people and environments.

<u>Disposable Protective Apparel</u>

The Alpha Pro Tech segment generates revenue from a complete line of disposable protective garments (shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats – pictured on the right), as well as face masks (including flat-fold N-95 masks) and face shields (pictured below).

The company's aim is to design and manufacture its disposable protective garments to keep the wearer cool, clean, and comfortable, as well as provide the correct level of protection for the wearer and the wearer's environment. In order to achieve their goal, the company utilizes a comprehensive selection of materials and garment designs that meets a wide range of application requirements. The materials are clean, durable, and offer the wearer comfort. This is especially important since one of the largest segments APT's products are sold to is pharmaceutial manufacturing, which needs clean materials for their plants in order to avoid product contamination. The apparel products are manufactured using proprietary materials such as ChemTech®, BarrierTech®, ComforTech®, AlphaGuard® and GenPro®, UltraGrip™, SafeStep® , MaxGrip® , AquaTrak® , SureGrip™ and NaviTrak®.

The majority of the company's disposable protective garments are manufactured through a joint venture in India. In most cases the products produced outside of the US are made using materials the company supplies.

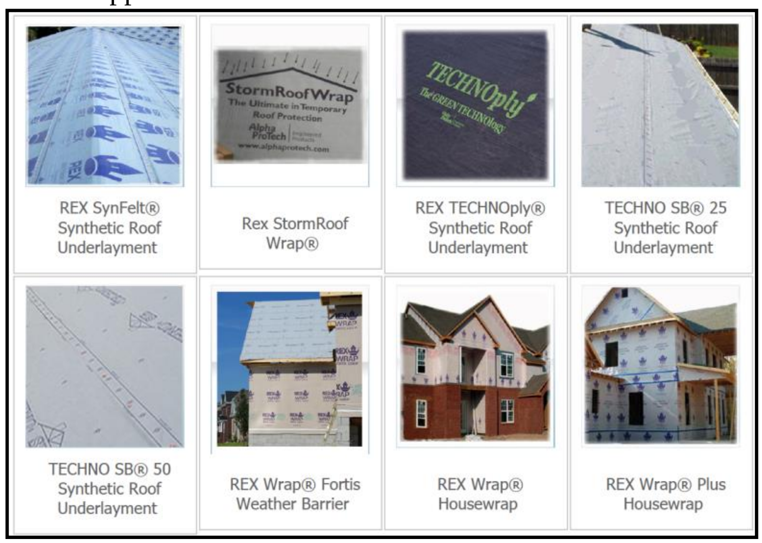
The company's flexability to adjust to market conditions is being demonstrated during the COVID-19 global pandemic environment. In 1H20, the company has seen unpresidented production growth and demand for masks (primarily N-95 masks) and face shields.

The company's face masks are produced in a variety of filtration efficiencies and styles. It has a patented Positive Facial Lock® feature, which provides a custom fit to the face to prevent blow-by (the potential for infectious material to enter or escape a facemask without going through the filter as a result of gaps or openings) for better protection. The company's Magic Arch® feature holds the mask away from the nose and mouth, creating a comfortable breathing chamber.

APT is producing a N-95 Particulate Respirator National Institute for Occupational Safety and Health approved face mask, which incorporates its Positive Facial Lock feature and the Magic Arch feature. In 2020, this product is experiencing increased demand due to COVID-19, just like it did during previously infectious disease outbreaks (SARS in 2003, Bird Flu in 2006, H1N1 in 2009, and Ebola in 2014). The N-95 mask (picture on the bottom of the prior page) is a flatfold design that delivers the user a comfortable, custom fitting facemask compared to the typical N-95 masks sold in the US. The integrated Magic Arch® technology creates a breathing chamber within the facemask by holding it away from the user's nose and mouth. The company also incorperates PFL technology that provides an integrated Twist Seal® chinpiece that helps the wearer create a perfect fit every time.

The eye shields produced are manufucatured using optical-grade polyester film that has a permanent anti-fog feature. The goal of the shields it to provide the wearer with extremely lightweight, distortion-free protection that can be worn for hours, and the eye shields will not fog up from humidity and/or perspiration.

Face masks and eye and face shields are disposable, which eliminates the possibility of cross infection between patients and saves users, such as hospitals, the expense of sterilization after every use. All of the company’s disposable protective apparel products (including face masks and face shields) are sold through similar distribution channels and are produced in Food and Drug Administration approved facilities.



<u>Building Supply</u>

The Alpha ProTech Engineered Products segment generates most of its revenue within this segment through the sale of construction supply weatherization products - Housewrap and synthetic roof underlayment offerings (pictured on the right – from the company’s Website). Revenue is also generated from the sale of other woven material.

The company’s aim in developing construction supply weatherization products is to provide customers with certain advantages such as decreasing construction time to build a home, which reduces costs for its customers.

The housewrap is trademarked under the REX™ name. This product provides a weather resistant barrier for the home, as well as reduced energy consumption for the homeowner. REX Wrap products (pictured above) are woven and coated polypropylene micro perforated weather resistant barriers. The company believes its Fortis offering with JX ALTA 360° Drainage Technology is a one-of-a-kind breathable product that uniquely enables the drainage of water in every direction to protect buildings from outdoor elements better than typical housewrap offerings of its competitors. Overall, the company’s products are intended to reduce jobsite material waste, providing a simple method of installation to reduce labor, and enabling fewer products to be carried onto the jobsite.

The company produces proprietary synthetic roof underlayment (pictured above) called REX™ SynFelt. This offering has the ability to resist the environment compared to conventional organic roofing underlayment that is prone to rapid deterioration and mold growth. The company’s primary growth driver within its synthetic roof underlayment product portfolio is the manufacture and distribution of TECHNOply™ and TECHNO™ SB, their economy versions of its synthetic roof underlayment. While this product was developed to capture market share in the lower end of the market, it still is 100% synthetic woven to provide high tear strengths, as well as a proprietary walking surface to reduce potential accidents. Given the current climate environment, this offering is a green solution for ecological building technology. It is UV and water/moisture resistant for six months, which enable schedule flexibility for those managing home construction job sites.

Growth Strategy

The company has built an organization with a strategy that is focused on developing, producing, and marketing differentiated innovative high value products that protect people, products, and environments. Since APT’s inception in 1989, its sales strategies have been simplified to communicating directly with end users and developing innovative products to suit their needs.

The primary growth driver through our forecast period is meeting increased customer demand. At the start of 2020, the COVID-19 pandemic environment presented the company a challenge as there was, and still is, unprecedented demand for N-95 masks. The company demonstrated its flexibility by increasing production capabilities for its N-95 flat fold face masks at its manufacturing facility in Utah. In 2Q20, the company completed its phase 1 ramp to produce N-95 masks and secured raw materials to support the fulfillment of 2H20 orders. APT's phase 2 expansion plan to further increase N-95 production capacity should be completed before the end of 2020. The plant capacity for N-95 masks should exceed $100 million in 2021. As of August 1, 2020, the company had booked $66 million (up from $46.8 million in May 2020) in N-95 mask orders (since January 27, 2020) of which $12 million was fulfilled in 1H20. In 2H20, the company anticipates approximately $31 million of backlog orders to be fulfilled for its N-95 face masks and $23 million of its N-95 masks backlog should be fulfilled in 2021. We anticipate the company's booked orders to continue growing driven by the COVID-19 pandemic environment and researchers issuing reports that show the best type of protective mask to wear are N-95 type masks. In August 2020, researchers at Duke University found that the best face coverings were N95 masks without valves and hospital grade coverings that are used by front-line health care workers.

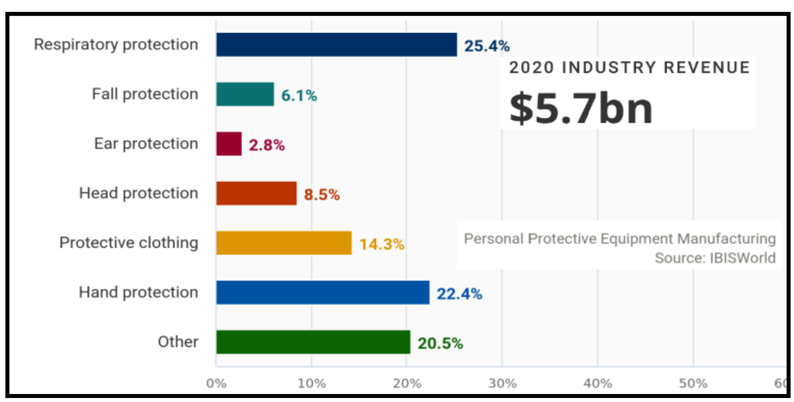
The company is also expanding production in its Arizona plant to meet the demand for its face shield offering. As of August 1, 2020, APT had orders of over $6 million to be fulfilled in the 2H20. In 1H20, face shield orders fulfilled were nearly $6 million.

In 1Q20, the company was able to build its US inventory for its disposable protective apparel garments which are primarily sourced from a joint venture in India. This enabled the company to meet customer demand even after the late March 2020 country-wide shut down in India. While those restriction have eased, it will take some time to get the production and shipments from its joint venture in India back to normal levels. The company anticipates a return to normal for production, shipments, and US inventory levels in 4Q20.

The company's building supply segment has the competitive advantage of being vertically integrated. After sourcing the material to manufacture housewrap and synthetic roof underlayment products, the company controls its process compared to competitors that use third party manufacturers. The stability and control provided in the company's manufacturing process should enable them to meet existing and new customer demand. New customer demand is likely to come from those customers whose existing suppliers are unable to produce products in a timely manner.

Industry Briefs

The company's operations touch various industries such as housing, home construction, and home renovation for products produced within its building supply segment such as housewrap and synthetic roof underlayment. The company's disposable protective apparel segment touches sectors such as personal protective equipment for its masks and face shields and supplying personnel shoe-covers, bouffant caps, gowns, coveralls, lab coats, and frocks that operate in cleanroom environments such as in hospitals, pharmaceutical manufacturing, semiconductor manufacturing, etc.



Disposable Protective Apparel

In 2020, the company's fastest growing part of its disposable protective apparel segment is personal protective equipment. IBISWorld projects the Personal Protective Equipment Manufacturing industry growing 15.2% to $5.7 billion in 2020. IBISWorld projects a 2.2% annualized growth rate reaching $6.4 billion in 2025. The high growth rate for 2020 reflects the COVID-19 pandemic environment in which the industry has experienced an unprecedented surge in demand for N95 masks, respirators, face shields and gloves. Manufacturing of such products are operating at maximum capacity and most producers are in the process of expanding domestic production capabilities. Alpha Pro Tech is in the process of expanding their capacity to produce N95 masks at its facility in Utah, which should reach capacity of over $100 million in 2021. IBISWorld anticipates the overall impact of the COVID-19 pandemic in future years will be an increased emphasis on domestic production in the interest of national security.

Based on IBISWorld's May 2020 forecast for the Personal Protective Equipment Manufacturing industry, if the percentages for respiratory protection and protective clothing segments (39.7% total – see chart on prior page) holds, 2025 spending on those categories should approximate $2.5 billion, up from an estimated $2.2 billion forecast for 2020. Overall industry growth should remain high in 2021 as COVID-19 virus mitigation efforts continue. IBISWorld predicts demand for industry products should be sustained due primarily to global stockpiling efforts among governments, institutions and organizations.

Market research and consulting firm Reports and Data published a report on the global healthcare personal protective equipment market, which generated revenue of $5 billion in 2019 and is projected to grow annually by 4.5% reaching $8 billion in 2027. The report found that healthcare personal protective equipment is experiencing extreme demand due to the COVID-19 pandemic especially since it relates to the safety of healthcare workers globally. The items in high demand include disposable gloves, face protection masks and face shield, goggles, gowns, coveralls, head covers, and boots or shoe coverings, most of which APT can supply to customers.

Current and future demand is likely to be supported by the estimated (in March 2020) need according to the World Health Organization of 89 million medical masks monthly to meet the overall demand for protective medical equipment worldwide. If there is a need for masks as there is, there will also be a need for protective disposable apparel in order to keep medical professionals safe.

A key customer segment is pharmaceutical manufacturing for APT's shoe-covers, bouffant caps, gowns, coveralls, lab coats, and frocks since the personnel operate in a cleanroom environment. According to IBISWorld, the US Brand Name Pharmaceutical Manufacturing industry is expected to generate revenue of nearly $199 billion in 2020, which is anticipated to grow 3% annually reaching nearly $231 billion in 2025. Generic Pharmaceutical Manufacturing is expected to reach $70 billion in 2025, up from an estimated nearly $62 billion in 2020. As individual companies within the pharmaceutical manufacturing industry experience growth in producing drugs, APT's protective disposable apparel will likely be necessary to support keeping the manufacturing process clean.

Another key customer base for the company is the dental services market. The COVID-19 pandemic has resulted in state and industry mandates and recommendation that should result in increasing dental protective equipment sales. Research marketing firm Technavio predicts that the global dental surgical equipment market should increase by $1.4 billion or nearly 6% annually from 2020 to 2024. In April 2020, the American Dental Association stated that it is working with reliable domestic manufacturers, key dental distributors and others to increase access to personal protective equipment for dental professionals.

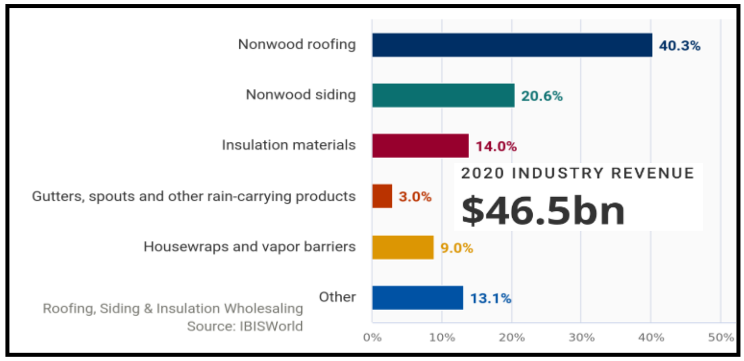
Building Supply

The company produces housewraps for the construction industry. Housewrap is typically a synthetic material used to protect buildings and functions as a weather-resistant barrier, preventing rain from getting into the wall assembly while allowing water vapor to pass to the exterior. In April 2020, according to a report (Global House Wraps Market 2020) published by 360researchreports.com, the global housewrap market is likely approximate $2.3 billion in 2020 and grow annually by 4.4% reaching $3.1 billion in 2026.

In June 2020, Researchandmarkets.com published a report that projected the global non-perforated housewrap segment to grow annually by 6.8% reaching $7.4 billion in 2027. The forecast estimated US annualized growth is likely to be 5.1% due primary to the COVID-19 pandemic environment at the beginning of their forecast period.

According to market research firm Global Industry Analysts, Inc. the global housewrap market is estimated to be $6.3 billion in 2020 and achieve 6.4% annualized growth reaching $9.7 billion in 2029. The report estimates the US housewrap market at $1.7 billion in 2020.

According to IBISWorld, the Roofing Siding and Insulation Manufacturing industry, which includes housewraps and vapor barriers, is expected to decline 2.5% to $46.5 billion in 2020 due primarily to reduced construction demand stemming from the COVID-19 pandemic. However, demand for some industry products required for home repairs could continue to grow. Potentially supporting residential construction are extremely low mortgage rates with the 30-year fixed rate hovering around 3.1%. IBISWorld anticipates revenue growth for the industry of 1.7% annually reaching $50.5 billion in 2025. Based on IBISWorld's April 2020 forecast for the Roofing Siding and Insulation Manufacturing industry, if the percentages for housewraps and vapor barriers and non-wood roofing (49.3% total – see chart at right) hold, 2025 spending on those categories should approximate $24.9 billion, up from an estimated $22.9 billion forecast for 2020. The report notes that demand is more heavily concentrated on the housing market than the nonresidential building market due to the higher value of roofing and siding installation per unit construction.



Market research and consulting firm Global Market Insights published a report indicating that the Roofing Underlayment market generated revenue of $34.3 billion in 2019. The report estimates revenue could approach $50 billion in 2026. Supporting revenue growth for this sector should be government initiatives to adopt ecofriendly alternatives for buildings, as well as scaling up of commercial and residential construction activities which is an influencer of roofing underlayment demand globally. Non-bitumen (asphalt or tar based) synthetic underlayment should increase annually by 5.1% to 2026 since they are likely to be preferred over the traditional underlayment type stemming from the fact that they are composed of either polypropylene or polyethylene. The primary advantage of synthetics versus asphalt or tar based underlayment's is they are lightweight but strong, typically non-skid, and resistance to fungal growth, and do not absorb moisture.

Projections

<u>Basis of Forecast</u>

We anticipate the primary growth driver for the company's sales growth through our forecast period is its disposable protective apparel segment. Within that segment the growth driver will be production of N-95 masks and face shields. As of August 1, 2020, the company booked $66 million (up from $46.8 million on May 1, 2020) in N-95 mask orders (since January 27, 2020) of which $12 million was fulfilled in 1H20. In 2H20, the company anticipates approximately $31 million of backlog orders to be fulfilled for its N-95 face masks and approximately $23 million of its N-95 masks backlog should be fulfilled in 2021. We anticipate the company's booked orders to continue growing due to the COVID-19 pandemic environment that remains entrenched in US states. After completing phase 2 of a plant capacity expansion project, the company should have N-95 production capacity exceeding $100 million in 2021. We forecast mask sales to reach $80 million in 2021, up from an estimated $45.3 million in 2020. Mask sales in 2019 were $3.2 million with only a small portion coming from N-95 mask sales.

The company is also expanding production in its Arizona plant to meet the demand for its face shield offering. As of August 1, 2020, APT had orders of over $6 million to be fulfilled in the 2H20. In 1H20, face shield orders fulfilled were nearly $6 million.

In 2020, we anticipate a significant expansion of gross margin to 50% compared to 36.4% in 2019. Gross margin expansion stems from the product mix shift to higher margin masks and face shields. Those two products combined should exceed 60% of total sales in 2021, up from an estimated 55% in 2020. We forecast gross margin improving to 51% in 2021 due primarily to increased sales of higher margin masks and face shield products.

<u>Economy</u>

In June 2020, the International Monetary Fund (IMF) updated its economic growth estimate for the US to a decline of 8% for 2020 followed by growth of 4.5% in 2021. In April 2020, the IMF projected a decline in US growth of

5.9% for 2020 and growth of 4.7% for 2021. The revisions primarily reflect a more negative impact of the COVID-19 pandemic in 1H20 than originally anticipated and a more gradual recovery than previously forecast.

According to data and economic model provider Trading Economics, US housing starts are estimated to average nearly 1.2 million in 2021 and trend higher in 2022 to nearly 1.3 million, up from slightly less than 1.1 million in 2020. The trends in housing should support the company's building supply segment and our growth forecast of nearly 12.4% driven primarily by a 15.8% increase in synthetic roof underlayment product sales to new customers that are having issues obtaining product during the COVID-19 pandemic environment, and existing customers. An advantage to support our sales growth for synthetic roof underlayment, as well as housewrap production, is that this segment's manufacturing is vertically integrated compared to other industry producers that rely on third party manufacturers.

Operations – 2020

We project 123.9% sales growth to $104.5 million from $46.7 million in 2019 due primarily to a $55 million increase in the company's disposable protective apparel segment to $75.1 million. We project building supply segment growth of 10.6% to $29.4 million driven primarily by an 11.1% increase in roof underlayment product sales. The growth in the disposable protective apparel segment should be driven by a $52.8 million increase in masks (primarily N-95 masks) and face shields combined reflecting the fulfilment of orders in 2H20 (in excess of $38 million in sales). The growth in N-95 masks and face shields should be supported by the unprecedented need for personal protective equipment stemming from the COVID-19 pandemic environment.

We forecast gross profit nearly tripling to $52.3 million compared to nearly $17 million in 2019 due primarily to sales growth and gross margin expanding to 50% from 36.4% in 2019. Gross margin improvement stems from a product mix shift to higher margin N-95 masks and face shields which should comprise 55.1% of total sales, compared to 10.3% in 2019.

We project operating income increasing $30.4 million to $33.4 million. In 2019, operating income was $3 million. The increase in operating income reflects sales more than doubling, gross margin expansion, and operating margin expense improving to 18% from 29.9% in 2019. We forecast operating expenses increasing 34.9% to $18.8 million compared to nearly $14 million in 2019. We forecast SG&A expense increasing 35.6% to $18.1 million from $13.3 million reflecting sales and marketing initiatives to support sales growth and expanded operations at the company's N-95 manufacturing plant in Utah, as well as costs associated with the health and safety of workers that manufacture the company's products in the US. We expect D&A expense to increase by $118,000 to $720,000 due primarily to the plant expansion in Utah.

We project non-operating income of $234,000 compared to $658,000. The two primary components of non-operating income are equity in income of unconsolidated affiliate and marketable securities (gain or loss). We are only recording those two items as they are reported in 2020.

We project net income of $26.1 million or $1.89 per share on a tax rate of 22.5%. In 2019, the company reported net income of $3 million or $0.23 per share on a tax rate of 18.5%. The significant increase in results reflects 1H20 results that should accelerate in 2H20 due primarily to the fulfillment of N-95 masks and face shields that were booked as of August 1, 2020.

Finances – 2020

We project cash earnings of $29.3 million and an increase in working capital of $9 million. The increase in working capital is due primarily to increases in receivables, inventory, and prepaid assets. Cash from operations of $20.3 million and proceeds from the exercise of stock options of $1.9 million should cover capital expenditures and repurchase of common stock. Cash should increase by nearly $20.1 million to $26.6 million at December 31, 2020.

Operations – 2021

We project 40.5% sales growth to $146.8 million due primarily to a 51.5% increase in the company's disposable protective apparel segment to nearly $113.8 million, up from an estimated $75.1 million in 2020. We project building supply segment growth of 12.4% to $33 million driven primarily by a 15.8% increase in roof underlayment product sales to $16.1 million. The growth in the disposable protective apparel segment should be driven by a 76.7% increase in mask sales (primarily N-95 masks) to $80 million from an estimated $45.3 million in 2020. As of August 1, 2020 the company has approximately $23 million in booked orders that will be fulfilled in 2021. The growth in N-95 masks should be supported by the need for personal protective equipment as the US continues to open up its economy and schools across the country, as well as the need for medical professionals (including dentists) to have masks, face shields, and disposable protective clothing every time they come in contact with a patient. Also, 2H21 is likely to see the US begin to replenish depleted stockpiles of personal protective equipment.

We forecast gross profit increasing 43.3% to $74.9 million compared an estimated $52.3 million in 2020 due primarily to sales growth and gross margin expanding to 51% from an estimated 50% in 2020. Gross margin improvement stems from a product mix shift to higher margin N-95 masks and face shields which should comprise 64.4% of total sales, compared to 55.1% in 2019.

We project operating income increasing 47.1% to $49.2 million, up from an estimated $33.4 million in 2020. The increase in operating income reflects sales growth, gross margin expansion, and operating margin expense improving to 17.5% from an estimated 18% in 2020. We forecast operating expenses increasing 36.5% to $25.7 million compared to an estimated $18.8 million in 2020. We forecast SG&A expense increasing 37% to $24.8 million due primarily to sales growth in both its building supply and disposable protective apparel segments. We expect D&A expense to increase by $180,000 to $900,000 to account for a full year of the company's plant expansion in Utah completed in 2H20.

We project interest income of $80,000 compared to an estimated $46,000.

We project net income of nearly $37 million or $2.66 per share on a tax rate of 25%, up from an estimated $26.1 million or $1.89 per share on a tax rate of 22.5%.

Finances – 2021

We project cash earnings of $38.4 million and an increase in working capital of $13.2 million. The increase in working capital is due primarily to increases in receivables, inventory, and prepaid assets, and a decrease in payables. Cash from operations of $25.1 million should cover capital expenditures, increasing cash by $23.1 million to $49.8 million at December 31, 2021.

2Q20 and 1H20 Results

2Q20

The company reported that net sales more than doubled to $25.5 million compared to $11.4 million in the year-ago period. The increase reflects $18 million in the disposable protective apparel segment sales compared to $4.7 million in 2Q19, and an increase to $7.5 million from $6.7 million in the year-ago period in the building supply segment. The nearly four-fold increase in disposable protective apparel sales stems from a more than 10-fold increase in both face mask and face shield sales due to customer demand reflecting the COVID-19 pandemic environment, as well as a 42.3% increase in disposable protective garments. The 11.1% increase in building supply sales to $7.5 million reflects a 13.1% increase in houswrap sales and 9.9% increase in synthetic roof underlayment.

Gross profit more than tripled to $12.6 million from $4.1 million in the year-ago period. The increase reflects sales growth and gross margin expansion to 49.6% from 36% in the year-ago period. The improvement in gross margin stems from a major shift in the product mix to higher margin face masks (primarily N-95 masks) and face shields. Operating expenses increased 39.1% to $4.7 million from $3.4 million in the year-ago period. SG&A expense increased 39.6% to nearly $4.6 million from $3.3 million due primarily to increases in employee compensation, commissions, accrued bonuses, insurance costs, and factory-related expenses to insure the health and welfare of employees stemming from the COVID-19 pandemic. D&A expense was $178,000 compared to $140,000 in 2Q19.

Income from operations improved to nearly $7.9 million compared to $704,000 in the year-ago period due to sales growth, gross margin expansion, and operating margin expense improving to 18.6% from 29.8% in 2Q19.

Non-operating income was $160,000 compared to $544,000. The decrease reflects a gain on marketable securities of $41,000 compared to $439,000 in the year-ago period.

Net income was $6.2 million or $0.46 per share, reflecting a 22.7% income tax rate compared to net income of $1 million or $0.08 per share, reflecting a 19.1% income tax rate in 2Q19.

1HQ20 Results

The company reported that net sales increased 84.1% to $43.7 million compared to $23.7 million in the year-ago period. The increase reflects a near tripling in the disposable protective apparel segment sales to $28.6 million compared to $10.5 million in 1HQ19, and a 13.6% increase in the building supply segment to $15 million from $13.2 million.

Gross profit increased nearly 138% to $21.2 million from $8.9 million in the year-ago period. The increase reflects sales growth and gross margin expansion to 48.5% from 37.6% in the year-ago period. The improvement in gross margin stems from a major shift in the product mix to higher margin face masks (primarily N-95 masks) and face shields. Operating expenses increased 25.2% to $9 million from $7.2 million in 1H19 reflecting a 24.8% increase in SG&A expense. D&A expense was $360,000 compared to $267,000 in 1H19. Income from operations improved to nearly $12.2 million compared to $1.7 million in the year-ago period due to sales growth, gross margin expansion, and operating margin expense improving to 20.7% from 30.4% in 1H19.

in thousands $	6 Mos. 20	6 Mos. 19	% D
Net sales	**$ 43,654**	**$ 23,718**	**84.1%**
Cost of Sales	22,487	14,809	**51.8%**
Gross Profit	$ 21,167	$ 8,909	**137.6%**
Total Operating Expenses	9,016	7,204	**25.2%**
Operating Income	12,151	1,705	**613%**
Total Other Income (Expense)	204	1,004	**NMF**
Pre-Tax Income	12,355	2,709	**NMF**
Income Tax Expense (Benefit)	794	481.0	
Net income (loss)	$ 11,561	$ 2,228	
Net income (loss) per share	$ 0.84	$ 0.17	
Avg Shares Outstanding	13,813	13,346	
Margins			
Gross margin	48.5%	37.6%	
Operating Margin	27.8%	7.2%	
Pre-Tax Margins	28.3%	11.4%	
Source: company reports			

Non-operating income was $204,000 compared to $1 million in the year-ago period. The decrease reflects a loss on marketable securities of $18,000 compared to a gain of $609,000 in 1H19.

Net income was $11.6 million or $0.84 per share (excluding $2 million of a nonrecurring tax benefit due to the exercise of disqualified incentive stock options and non-qualified stock options in 1Q20). In 1H19, net income was $2.2 million or $0.17 per share.

Finances

In 1H20, cash earnings of nearly $12.4 million and a nearly $4.4 decrease in working capital resulting in cash from operations of $16.7 million. The decrease in working capital was due primarily to an increase in customer advance payments of orders and increased in payables and accruals, partly offset by an increase in receivables. Cash from operations and proceeds from the exercise of stock options covered capital expenditures and repurchase of common stock. Cash increased $18.2 million to $24.7 million at June 30, 2020.

Capital Structure

At June 30, 2020 the company had no debt, a cash balance of $24.7 million (or $1.82 per share), working capital of $37 million with a current ratio of 4 to 1. In 2Q20, the company did not renew its $3.5 million credit facility since it had a strong cash position that should be sufficient to satisfy working capital needs and planned capital expenditures for the foreseeable future.

Competitive Landscape

The company's product offerings compete on the basis of quality, pricing, availability, responsiveness to customers and manufacturing capability. The industry landscape is highly competitive since there are only a few competitors that have monopolistic positions. APT faces competition from companies that have greater marketing and financial resources.

Major competitors to the company's engineered products segment within the construction supply weatherization market are DuPont for housewrap products and Interwrap Inc. for synthetic roof underlayment. Competitors for the company's disposable apparel and face coverings offering include Kimberly-Clark Corporation (primarily for in the medical and dental markets), as well as 3M Company, Johnson & Johnson, Precept Medical Products (a division of White Knight Engineered Products), Cardinal Health, Inc. and Medline Industries Inc.

The company's products that are sold into the industrial and cleanroom market compete against VWR International, Kimberly-Clark, 3M Company, Kappler, Inc., DuPont and Allegiance Healthcare Corporation. However, VWR International, Cardinal Health, Inc., and Medline Industries Inc. still distribute some of the company's product offerings.

Management

Lloyd Hoffman – CEO and President since January 2016 and December 2017, respectively. He joined the company as an accountant and was named SVP of Finance and Administration in 1999, which was followed by him serving as CFO through 2015. Prior to joining the company he was a partner at Software Concepts, Inc., a software developer, and was in charge of finance and administration.

Colleen McDonald – CFO since January 2016. Ms. McDonald joined the company's accounting department in 1995 and was named assistant corporate controller in 2002. In 2003, she served as the company's corporate controller until becoming CFO in 2016.

Danny Montgomery – SVP of Manufacturing & Engineered Products. Mr. Montgomery has 40 years manufacturing and sales experience in various plastic and polymer industries. He joined Alpha Protech in 1994 upon the acquisition of Ludan Corp., which he founded and managed.

Risks

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

<u>Global Pandemic</u>
The COVID-19 global pandemic or any future outbreaks of contagious diseases could have a material adverse effect on Alpha Pro Tech's internal operations. The COVID-19 pandemic has impacted US economic activity, as well as internal operations of companies. The impact on companies include, but are not limited to, disruptions or restrictions on employees ability to work effectively due to illness, travel bans, quarantines, shelter-in-place orders or other limitations such as in person sales calls. Temporary closures of facilities or the facilities of customers or suppliers could affect APT's ability to timely meet its customer's orders.

The company's operations have experienced a combination of positive and negative impacts on its business operations and financial conditions in the COVID-19 pandemic environment.

<u>COVID-19 Vaccine</u>
If a COVID-19 vaccine is developed, manufactured, and distributed in the US, it could cause a temporary near term pause in receiving N-95 mask and face shield orders, which could disrupt the company's sales. However, the need to replenish and increase N-95 mask and face shield stockpiles is likely to remain significant due to the COVID-19 pandemic.

<u>Economic Conditions</u>
Prolonged recessions or economic downturns in the US or globally could negatively affect the company's operations and financial results. The impacts on the company from a prolonged economic downturn could include lower demand, a change in product mix, lower collection of receivables, or difficulty in obtaining raw materials. A recession could cause APT to experience reduced revenue, margins and earnings.

Customer Concentration

In 2019, APT's two largest customers accounted for approximately 32% of net sales, which was unchanged from 2018. In 2019, two customers accounted for approximately 28% of receivables compared to two customers accounting for 28% in 2018.

Suppliers

The company relies on a limited number of suppliers and contractors for the manufacture of its products. If key suppliers and contractors are lost, or if they are unwilling or unable to satisfy raw material requirements, finding substitute suppliers or contractors may be time-consuming. The impacts could disrupt operations.

International Manufacturing

The company subcontracts manufacturing of some of its goods within Asia and Mexico. Certain proprietary products are manufactured with materials supplied by the company, as well as to their specifications and quality assurance guidelines.

The travel restrictions due to the COVID-19 pandemic could disrupt the company's ability to receive manufactured products from China and may disrupt other suppliers that rely on products produced in China. Any disruption of APT's production schedule caused by an unexpected shortage of supplies even for a relatively short period of time could cause an alteration in production schedules or suspend production entirely, which could cause a loss of revenues.

The company's joint venture in India could expose it to operational, financial, and/or legal and compliance risks. The COVID-19 pandemic did cause a two month disruption in products being shipped from India to the US, as the government in India shut all exports out of the country. While the company built inventory prior the shutdown in India, production and shipments from India may not normalize until the end of 3Q20. Revenue growth rates experienced in 1H20 could slow in 3Q20 due to the disruption in production from its joint venture in India.

Shareholder Control

Officers and directors collectively own approximately 10.6% of the company's outstanding voting stock with two investment funds collectively owning 14% of voting shares (April 2020 SEC Filing). Collectively this ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

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.

Trading Volume

In 2019, average daily volume was approximately 25,900. Average daily volume increased over the last three months (ending August 11, 2020) to approximately 3.8 million. APT has 13.6 million shares outstanding and a float of approximately 11.2 million. Investors should be aware that the increase in average daily volume and price volatility is likely due to the company's products being position to satisfy the needs of customers stemming from the COVID-19 pandemic.

Alpha Pro Tech, Ltd.
Consolidated Balance Sheets
FY2017 – FY2021E
(in thousands)

	FY17A	FY18A	FY19A	2Q20A	**FY20E**	**FY21E**
ASSETS						
Current assets:						
Cash	$ 8,763	$ 7,007	$ 6,548	$ 24,735	**$ 26,634**	**$ 49,757**
Investments	343	258	335	270	**270**	**225**
Accounts receivable, net	4,597	4,935	3,568	6,661	**8,707**	**14,272**
Accounts receivable, related party	361	383	724	952	**950**	**1,000**
Inventory	10,249	9,878	11,303	11,980	**14,918**	**17,975**
Prepaid assets	2,665	3,999	3,587	4,110	**4,702**	**7,340**
Total current assets	26,978	26,460	26,065	48,708	**56,179**	**90,569**
Property and equipment, net	3,158	3,244	3,943	4,004	**4,125**	**4,200**
Goodwill	55	55	55	55	**55**	**55**
Definite-lived intangible assets, net	21	16	11	9	**7**	**5**
Deferred income tax assets	19	-	-	-	**-**	**-**
Right-of-use assets	-	-	3,178	2,728	**2,278**	**1,378**
Equity investments in unconsolidated affiliate	3,893	4,480	4,839	5,045	**5,727**	**6,288**
Total assets	$ 34,124	$ 34,255	$ 38,091	$ 60,549	**$ 68,371**	**$ 102,495**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts payable	1,236	578	501	2,575	**1,740**	**799**
Accrued liabilities	1,565	1,342	920	1,718	**750**	**650**
Customer advance payments of orders	-	-	-	6,475	**-**	**-**
Lease liabilities	-	-	882	889	**889**	**-**
Total current liabilities	2,801	1,920	2,303	11,657	**3,379**	**1,449**
Lease liabilities, net	-	-	2,337	1,887	**1,187**	**500**
Deferred income tax liabilities, net	-	141	224	224	**224**	**-**
Stockholders' equity:						
Common stock,$.01 par value; authorized 50,000,000 shares;	143	135	129	136	**136**	**136**
Additional paid-in capital	5,415	2,669	708	2,694	**2,968**	**2,968**
Accumulated other comprehensive loss	(458)	-	-	-	**-**	**-**
Retained earnings (deficit)	26,223	29,390	32,390	43,951	**60,477**	**97,442**
Total stockholders' equity	31,323	32,194	33,227	46,781	**63,581**	**100,546**
Total liabilities and stockholders' equity	$ 34,124	$ 34,255	$ 38,091	$ 60,549	**$ 68,371**	**$ 102,495**
SHARES OUT	14,291	13,503	12,885	13,563	**13,588**	**13,595**

Source: Company reports and Taglich Brothers estimates

Alpha Pro Tech, Ltd.
Annual Income Statement
FY2017 – FY2021E
(in thousands)

	FY17 A	FY18 A	FY19 A	**FY20 E***	**FY21 E**
Net sales	$ 44,025	$ 46,624	$ 46,665	**$ 104,479**	**$ 146,800**
Cost of sales, excludes D&A	26,573	28,913	29,693	**52,212**	**71,900**
Gross Profit	17,452	17,711	16,972	**52,267**	**74,900**
Operating Expenses:					
Selling, general, and administrative	13,955	13,312	13,348	**18,105**	**24,800**
Depreciation and amortization	571	525	602	**720**	**900**
Total Operating Expenses	14,526	13,837	13,950	**18,825**	**25,700**
Operating Income (loss)	2,926	3,874	3,022	**33,442**	**49,200**
Equity in income of unconsolidated affiliate	355	587	359	**206**	**-**
Gain on sale of property	385	-	-	**-**	**-**
Gain (loss) on marketable securites	-	(50)	231	**(18)**	**-**
Interest income	4	3	68	**46**	**80**
Total other income (expense)	744	540	658	**234**	**80**
Pre-Tax Income (loss)	3,670	4,414	3,680	**33,676**	**49,280**
Income Tax Expense (benefit)	1,037	789	680	**7,589**	**12,315**
Net income (loss)	$ 2,633	$ 3,625	$ 3,000	**$ 26,087**	**$ 36,965**
Net (loss) per share	$ 0.18	$ 0.26	$ 0.23	**$ 1.89**	**$ 2.66**
Avg Shares Outstanding	14,993	13,963	13,143	**13,775**	**13,908**
Adjusted EBITDA	$ 3,793	$ 4,831	$ 4,075	**$ 34,458**	**$ 50,396**
Margin Analysis					
Gross margin	39.6%	38.0%	36.4%	**50.0%**	**51.0%**
Selling, general, and administrative	31.7%	28.6%	28.6%	**17.3%**	**16.9%**
Depreciation and amortization	1.3%	1.1%	1.3%	**0.7%**	**0.6%**
Operating margin	6.6%	8.3%	6.5%	**32.0%**	**33.5%**
Pre-tax margin	8.3%	9.5%	7.9%	**32.2%**	**33.6%**
Tax rate	28.3%	17.9%	18.5%	**22.5%**	**25.0%**
YEAR / YEAR GROWTH					
Total Revenues		5.9%	0.1%	**123.9%**	**40.5%**

* Excludes $2 million nonrecurring tax benefit due to the exercise of disqualified incentive stock options and non-qualified stock options in 1Q20

Source: Company reports and Taglich Brothers estimates

Alpha Pro Tech, Ltd.
Income Statement Model
Quarters FY2019A – 2021E
(in thousands)

	Q1 19 A	Q2 19 A	Q3 19 A	Q4 19 A	FY19 A	Q1 20 A	Q2 20 A	Q3 20 E	Q4 20 E	**FY20 E***	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**
Net sales	$ 12,304	$ 11,415	$ 12,027	$ 10,919	$ 46,665	$ 18,154	$ 25,500	$ 25,875	$ 34,950	**$ 104,479**	$ 37,240	$ 37,825	$ 36,255	$ 35,480	**$ 146,800**
Cost of sales, excludes D&A	7,500	7,309	7,807	7,077	29,693	9,600	12,887	12,950	16,775	**52,212**	18,450	18,650	17,800	17,000	**71,900**
Gross Profit	4,804	4,106	4,220	3,842	16,972	8,554	12,613	12,925	18,175	**52,267**	18,790	19,175	18,455	18,480	**74,900**
Operating Expenses:															
Selling, general, and administrative	3,675	3,262	3,172	3,239	13,348	4,102	4,553	4,600	4,850	**18,105**	6,200	6,300	6,100	6,200	**24,800**
Depreciation and amortization	127	140	142	193	602	182	178	180	180	**720**	225	225	225	225	**900**
Total Operating Expenses	3,802	3,402	3,314	3,432	13,950	4,284	4,731	4,780	5,030	**18,825**	6,425	6,525	6,325	6,425	**25,700**
Operating Income (loss)	1,002	704	906	410	3,022	4,270	7,882	8,145	13,145	**33,442**	12,365	12,650	12,130	12,055	**49,200**
Equity in income of unconsolidated affiliate	277	84	10	(12)	359	87	119	-	-	**206**	-	-	-	-	-
Gain on sale of property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain (loss) on marketable securites	170	439	(387)	9	231	(59)	41	-	-	**(18)**	-	-	-	-	-
Interest income	12	21	18	17	68	16	-	15	15	**46**	20	20	20	20	**80**
Total other income (expense)	459	544	(359)	14	658	44	160	15	15	**234**	20	20	20	20	**80**
Pre-Tax Income (loss)	1,461	1,248	547	424	3,680	4,314	8,042	8,160	13,160	**33,676**	12,385	12,670	12,150	12,075	**49,280**
Income Tax Expense (benefit)	243	238	110	89	680	972	1,822	1,840	2,955	**7,589**	3,100	3,165	3,035	3,015	**12,315**
Net income (loss)	$ 1,218	$ 1,010	$ 437	$ 335	$ 3,000	$ 3,342	$ 6,220	$ 6,320	$ 10,205	**$ 26,087**	$ 9,285	$ 9,505	$ 9,115	$ 9,060	**$ 36,965**
Net (loss) per share	$ 0.09	$ 0.08	$ 0.03	$ 0.03	$ 0.23	$ 0.24	$ 0.46	$ 0.46	$ 0.73	**$ 1.89**	$ 0.67	$ 0.68	$ 0.66	$ 0.65	**$ 2.66**
Avg Shares Outstanding	13,469	13,208	13,076	12,986	13,143	13,665	13,652	13,890	13,895	**13,775**	13,900	13,905	13,910	13,915	**13,908**
	-					-					-				
Adjusted EBITDA	$ 1,251	$ 982	$ 1,141	$ 701	$ 4,075	$ 4,543	$ 8,152	$ 8,458	$ 13,459	**$ 34,458**	$ 12,715	$ 13,000	$ 12,480	$ 12,405	**$ 50,396**
Margin Analysis															
Gross margin	39.0%	36.0%	35.1%	35.2%	36.4%	47.1%	49.5%	50.0%	52.0%	**50.0%**	50.5%	50.7%	50.9%	52.1%	**51.0%**
Selling, general, and administrative	29.9%	28.6%	26.4%	29.7%	28.6%	22.6%	17.9%	17.8%	13.9%	**17.3%**	16.6%	16.7%	16.8%	17.5%	**16.9%**
Depreciation and amortization	1.0%	1.2%	1.2%	1.8%	1.3%	1.0%	0.7%	0.7%	0.5%	**0.7%**	0.6%	0.6%	0.6%	0.6%	**0.6%**
Operating margin	8.1%	6.2%	7.5%	3.8%	6.5%	23.5%	30.9%	31.5%	37.6%	**32.0%**	33.2%	33.4%	33.5%	34.0%	**33.5%**
Pre-tax margin	11.9%	10.9%	4.5%	3.9%	7.9%	23.8%	31.5%	31.5%	37.7%	**32.2%**	33.3%	33.5%	33.5%	34.0%	**33.6%**
Tax rate	16.6%	19.1%	20.1%	21.0%	18.5%	22.5%	22.7%	22.5%	22.5%	**22.5%**	25.0%	25.0%	25.0%	25.0%	**25.0%**
YEAR / YEAR GROWTH															
Total Revenues	7.5%	(5.7%)	(0.6%)	(0.4%)	0.1%	47.5%	123.4%	115.1%	220.1%	**123.9%**	105.1%	48.3%	40.1%	1.5%	**40.5%**

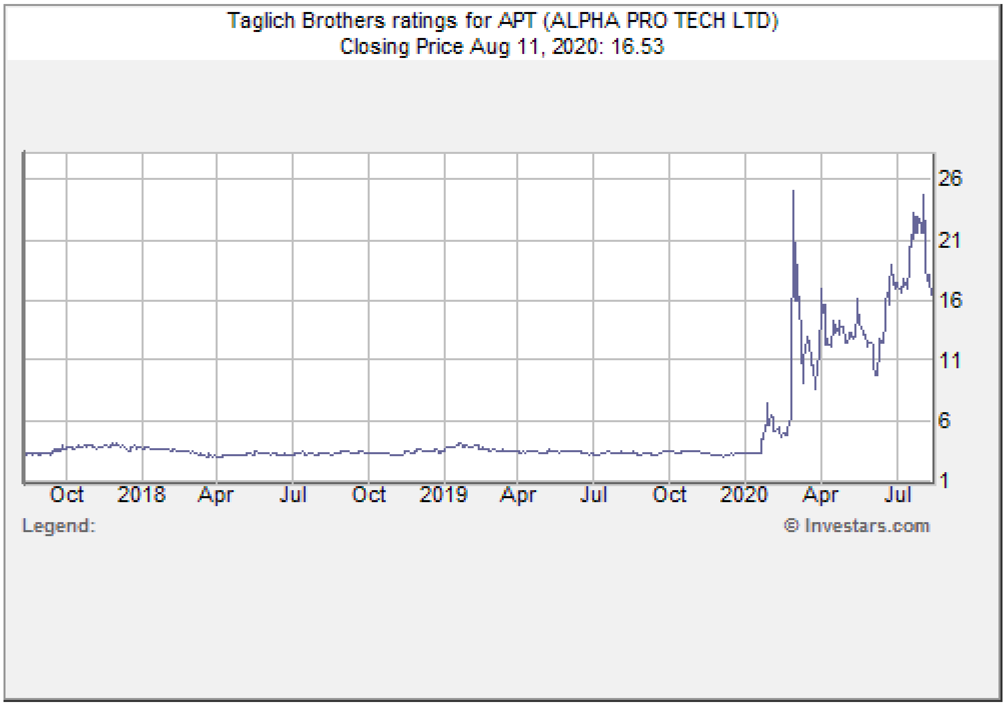
Source: Company reports and Taglich Brothers estimates

Alpha Pro Tech, Ltd.
Cash Flow Statement
FY2017 – FY2021E
(in thousands)

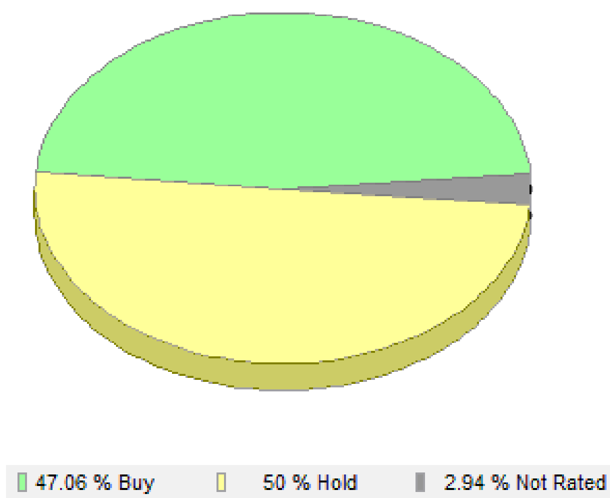
	FY2017A	FY2018A	FY2019A	6Mos 20A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities						
Net Income (loss)	$ 2,633	$ 3,625	$ 3,000	$ 11,561	**$ 28,087**	**$ 36,965**
Share-based compensation	296	432	451	183	**450**	**500**
Depreciation and amortization	571	525	602	360	**720**	**900**
Gain (loss) on marketable securites	-	50	(231)	18	**18**	-
Equity in income of unconsolidated affiliate	(355)	(587)	(359)	(206)	**(206)**	-
Gain on sale of property	(385)	-	-	-	-	-
Deferred income taxes	(378)	159	83	-	-	-
Operating lease expense, net of accretion	-	-	704	450	**224**	-
Cash earnings (burn)	2,382	4,204	4,250	12,366	**29,293**	**38,365**
Changes In:						
Accounts receivable	51	(338)	1,367	(3,093)	**(5,139)**	**(5,566)**
Accounts receivable, related party	(187)	(22)	(341)	(228)	**(226)**	**(50)**
Inventory	745	371	(1,425)	(677)	**(3,615)**	**(3,057)**
Prepaid expenses	681	(1,334)	412	(523)	**(1,115)**	**(2,638)**
Accounts payable and accrued liabilities	336	(881)	(500)	2,872	**1,069**	**(1,042)**
Customer advance payments of orders	-	-	-	6,475	-	-
Lease liabilities	-	-	(662)	(443)	**7**	**(889)**
(Increase)/decrease in Working Capital	1,626	(2,204)	(1,149)	4,383	**(9,017)**	**(13,242)**
Net cash (used) provided by operations	4,008	2,000	3,101	16,749	**20,276**	**25,123**
Cash Flows from Investing Activities						
Purchase of property and equipment	(1,222)	(606)	(1,296)	(419)	**(2,000)**	**(2,000)**
Proceeds from sales of marketable securities	-	36	154	47	-	-
Proceeds from the sale of property	537	-	-	-	-	-
Cash Flows from Investing Activities	(685)	(570)	(1,142)	(372)	**(2,000)**	**(2,000)**
Cash Flows from Financing Activities						
Proceeds from exercise of stock options	210	394	130	1,935	**1,935**	-
Repurchase of common stock	(4,226)	(3,580)	(2,548)	(125)	**(125)**	-
Net cash provided by (used in) Financing	(4,016)	(3,186)	(2,418)	1,810	**1,810**	-
Net change in Cash	(693)	(1,756)	(459)	18,187	**20,086**	**23,123**
Cash Beginning of Period	9,456	8,763	7,007	6,548	**6,548**	**26,634**
Cash End of Period	$ 8,763	$ 7,007	$ 6,548	$ 24,735	**$ 26,634**	**$ 49,757**

Source: Company reports 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	11
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 with in the last three years.

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Johnson & Johnson	(NYSE: JNJ)		

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.

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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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