

Research Report – Update

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

UFP Technologies, Inc.

Rating: Buy

John Nobile

May 14, 2020

UFPT \$43.26 — (NASDAQ CM)

	2018A	2019A	2020E	2021E
Revenues (millions)	\$190.5	\$198.4	\$185.7	\$204.0
Earnings per share (diluted)	\$1.93	\$2.63	\$1.52	\$2.52

52-Week range	\$52.59 – \$30.80	Fiscal year ends:	December
Shares outstanding as of 5/1/20	7.5 million	Revenue per share (TTM)	\$26.54
Approximate float	6.2 million	Price/Sales (TTM)	1.6X
Market capitalization	\$324 million	Price/Sales (2021)E	1.6X
Tangible book value/share	\$12.53	Price/Earnings (TTM)	16.3X
Price/tangible book	3.5X	Price/Earnings (2021)E	17.2X

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 but lowering our twelve-month price target to \$50.00 per share from \$54.00 to reflect the adverse impact on the company's operations from COVID-19.

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

Partially mitigating reduced sales to the automotive and consumer markets are increased orders from certain medical market customers. UFPT has also begun producing medical face shields and related components.

The company has a strong balance sheet to offset diminished near-term results, as well as the ability to consider making strategic acquisitions. In the last major economic downturn, UFPT was able to grow by completing four acquisitions in a 15 month period.

1Q20 revenue (10Q released on 5/8/20) increased 2% to \$48.3 million with EPS of \$0.52, up from \$0.50 in the year ago period.

For 2020, we project a decline in revenue of 6.4% to \$185.7 million and net income of \$11.4 million or \$1.52 per share. Our forecast reflects the adverse effect on the company's operations from the COVID-19 pandemic.

For 2021, we project a 9.9% increase in revenue to \$204 million and net income of \$19 million or \$2.52 per share. Our forecast reflects the easing of COVID-19 pandemic conditions.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies but lowering our twelve-month price target to \$50.00 per share from \$54.00 to reflect the adverse impact on the company’s operations from COVID-19.

Although the COVID-19 pandemic did not materially impact UFPT’s 1Q20 results, we anticipate the pandemic will have a materially adverse effect on its 2Q20 and 3Q20 results. While all of the company’s factories are deemed essential, not all of its customers’ operations are essential and, therefore, demand for UFPT’s products has been negatively impacted, especially in the automotive and consumer markets. Partially mitigating decreases from automotive and consumer market customers are increased orders from certain customers in the medical market. The company has also begun to produce medical face shields and associated components.

The company has a strong balance sheet to offset diminished near-term results, as well as the ability to consider making strategic acquisitions. In the last major economic downturn, UFPT was able to grow by completing four acquisitions in a 15 month period.

Shares of UFP Technologies trade at a forward multiple that is lower than its peers (see chart below). We believe UFPT’s multiple should expand from current levels given earnings growth (excludes potential acquisitions) that should outperform its peers. We applied a multiple of 20X to our 2020 EPS projection of \$2.52 to obtain a year-ahead value of approximately \$50.00 per share.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2021 P/E	Projected EPS Growth to 2021
Atrion Corp	ATRI	678.89	1,220	33.8	NA	NA
Lantheus Holdings Inc	LNTH	12.9	551	20.6	9.1	44%
DMC Global Inc	BOOM	25.87	347	14.8	32.4	NMF
Surmodics Inc	SRDX	36.76	488	74.4	NMF	NMF
OraSure Technologies Inc	OSUR	16.86	1,090	61.2	NA	86%
Cutera Inc	CUTR	12.65	236	NMF	52.9	NMF
Meridian Bioscience Inc	VIVO	17.49	709	36.7	46.7	21%
Lydall Inc	LDL	10.7	172	NA	10.3	NMF
CECO Environmental Corp	CECE	4.79	173	9.4	7.3	22%
SeaSpine Holdings Corp	SPNE	10.4	286	NMF	NMF	27%
Accuray Inc	ARAY	2.16	182	79.6	NMF	NMF
Hurco Companies Inc	HURC	31.15	214	20.4	NA	NA
Graham Corp	GHM	11.36	117	NA	34.7	NMF
RTI Surgical Holdings Inc	RTIX	2.29	168	NA	83.0	NA
Harvard Bioscience Inc	HBIO	2.77	102	NA	8.4	19%
Peer Average				39.0	31.6	36%
Company						
UFP Technologies	UFPT	43.26	324	16.3	17.2	66%

Source: Taglich Brothers estimates, finviz

Business

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures components, subassemblies, products and packaging utilizing specialized foams, films, and plastics primarily for the medical market. The company’s single-use and single-patient devices and components are used in a wide range of medical devices, disposable wound care products, infection prevention, minimally invasive surgery, wearables, orthopedic soft goods, and orthopedic implant packaging.

UFP Technologies also provides engineered products and components to customers in the automotive, aerospace and defense, consumer, electronics and industrial markets. Typical applications of its products include military uniform and gear components, automotive interior trim, athletic padding, environmentally friendly protective packaging, air filtration, abrasive nail files, and protective cases and inserts.

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

The company differentiates itself through the design and production of customized products. With its packaging design expertise, cleanroom fabrication capabilities, and access to an array of advanced medical grade materials, UFPT offers custom packaging solutions to medical device manufacturers that meet the stringent requirements of the medical industry (examples of the company's medical products are pictured at right).



Industry Outlook

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

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes, orthopedic implants, and other similar products. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years. IBISWorld forecasts the medical device industry to have average annual sales growth of approximately 2.3% to \$45.6 billion in 2024 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 2024, resulting in annualized growth of 2.9% in the 65-and-over demographic. Medical innovations will continue to expand the average lifespan, with high-tech fields such as biotechnology and 3D printing likely enabling the development of new therapeutic and diagnostic product lines.

The future of the global medical device market looks to have opportunities in the hospital and homecare sectors. ResearchandMarkets projects the global medical device market to reach an estimated \$432.6 billion by 2025, growing at a compound annual growth rate (CAGR) of 4.1% from 2020 to 2025. Similar to IBISWorld, ResearchandMarkets expects major drivers of this growth to be healthcare expenditures, technological developments, an aging population, and chronic diseases.

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 the US could have an adverse effect on the company's sales through our forecast horizon.

In April 2020, the International Monetary Fund (IMF) changed its global economic growth estimates to a decline of 3% for 2020 and growth of 5.8% for 2021, down from its January 2020 GDP growth estimate of 3.3% for 2020. The IMF previously forecasted 2021 GDP growth of 3.4%. The revisions primarily reflect the severe impact of the COVID-19 pandemic and the assumption that the pandemic will fade in 2H20 and containment efforts can be gradually unwound helping to normalize economic activity.

The IMF changed its economic growth estimate for the US to a decline of 5.9% for 2020 and growth of 4.7% for 2021. In January 2020, the IMF projected US growth of 2% for 2020 and 1.7% for 2021.

The advance estimate of US GDP growth (released on April 29, 2020) showed the US economy decreased at an annual rate of 4.8% in 1Q20, down from the 2.1% growth reported in 4Q19. The 1Q20 US GDP estimate primarily reflects decreases in consumer spending, business investment, exports, and inventory investment, partially offset by increases in housing investment and government spending.

Competition

The medical contract manufacturing industry is highly competitive as is the foam and plastics converting industry. While there are several national companies that convert foam and plastics, the company's primary competition is from smaller independent regional manufacturing companies that generally market their products in specific geographic areas from neighboring facilities.

UFPT's foam and fiber packaging products compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The company's custom engineered products face competition primarily from smaller companies that typically concentrate on production of products for specific industries.

Some of UFPT's strengths in the engineered products market are its ability to address its customers' primary vendor selection criteria, including price, product performance, product reliability, and customer service. Other competitive factors include the company's access to a wide variety of materials, its engineering expertise, and its ability to combine foams with other materials such as plastics and laminates.

Projections

Although the COVID-19 pandemic did not materially impact UFPT's 1Q20 results, we anticipate the pandemic will have a materially adverse effect on its 2Q20 and 3Q20 results. While all of the company's factories are deemed essential, not all of its customers' operations are essential and, therefore, demand for UFPT's products has been negatively impacted, especially in the automotive and consumer markets. Partially mitigating this are increased orders from certain customers in the medical market. The company has also begun to produce medical face shields and associated components.

2020 Forecast

For 2020, we project a decline in revenue of 6.4% to \$185.7 million and net income of \$11.4 million or \$1.52 per share. Our forecast reflects the adverse effect on the company's operations from the COVID-19 pandemic.

We project gross margins decreasing to 24.7% from 27.2% in 2019 due primarily to reduced manufacturing overhead coverage and higher plant maintenance and supply expenses associated with keeping UFPT's manufacturing plants clean due to the COVID-19 pandemic.

SG&A expenses should increase to \$30.7 million from \$29.3 million in 2019 due primarily to increased compensation costs. SG&A margins should increase to 16.5% from 14.7% in 2019. We project a 38.5% decline in operating income to \$15.2 million with margins decreasing to 8.2% from 12.5%. Our tax rate forecast is 22.7%.

In 2020, we project \$23.2 million cash from operations on cash earnings of \$21.4 million and a \$1.8 million decrease in working capital primarily due to decreased receivables. We project a \$23.4 million increase in cash to \$27.1 million at the end of 2020 after \$5.5 million proceeds from the company's line of credit in an effort to maintain cash reserves with the uncertainty associated with COVID-19, and \$5.5 million of capital expenditures.

2021 Forecast

For 2021, we project a 9.9% increase in revenue to \$204 million and net income of \$19 million or \$2.52 per share. Our forecast reflects the easing of COVID-19 pandemic conditions.

We project gross margins increasing to 27.8% from 24.7% projected for 2020 due primarily to increased manufacturing overhead coverage and continued growth in higher margin medical sales.

SG&A expenses should increase to \$31.3 million from our projected \$30.7 million in 2020 due primarily to increased compensation costs. SG&A margins should decrease to 15.3% from 16.5% in 2020. We project a 66.8% increase in operating income to \$25.3 million with margins increasing to 12.4% from 8.2%. Our tax rate forecast is 25%.

In 2021, we project \$25.9 million cash from operations on cash earnings of \$28.4 million and a \$2.6 million increase in working capital primarily due to an increase in receivables. We project a \$15.1 million increase in cash to \$42.2 million at the end of 2021 after repaying debt of \$5.5 million and \$5.5 million of capital expenditures.

1Q 2020 and FY19 Financial Results

1Q20 - Sales increased 2% to \$48.3 million with net income of \$3.9 million or \$0.52 per share, up from \$3.7 million or \$0.50 per share.

Growth was primarily due to increased sales to the medical of 16.4%. This increase was offset by a 23.2% decline in sales to the aerospace and defense market, a 19.8% decline in sales to the automotive market, and a collective decline in sales to the consumer, electronics and industrial markets of 20.2%.

The increased sales to the medical market was primarily due to continued growth in programs at Dielectrics. The decreased sales to customers in the aerospace and defense market was primarily due to the timing of orders pursuant to government contracts. The decline in sales to the automotive market was due, in part, to customers' decreased demand due to industry shutdowns associated with the COVID-19 pandemic. The decline in sales to all other markets was primarily due to reduced demand for molded fiber protective packaging.

Gross profit increased to \$12.8 million from \$12.5 million and gross margins increased to 26.6% from 26.4% due to improved manufacturing overhead coverage and manufacturing efficiencies. SG&A expenses increased to \$7.8 million from \$7.2 million due primarily to an increase in stock-based equity awards of approximately \$250,000 and an increase in bad debt expense of approximately \$130,000 due, in part, to the anticipated impact of the COVID19 pandemic on UFPT's customers. Operating income decreased to \$5.1 million or 10.5% of sales from \$5.3 million or 11.1% of sales.

Non-operating expense was \$343,000 compared to \$470,000. Interest expense decreased to \$16,000 from \$231,000 while other income was \$327,000 versus \$239,000 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 17.8%.

FY 2019 - Sales increased 4.2% to \$198.4 million with net income of \$19.8 million or \$2.63 per share, up from \$14.3 million or \$1.93 per share.

Growth was primarily due to increased sales to the medical and aerospace and defense markets of 16.9% and 5%, respectively. These increases were partially offset by a collective decline in sales to the consumer, electronics and industrial markets of 24.1%. The increase in sales to customers in the medical market was primarily due to strong sales at Dielectrics (including on additional month of sales of \$3.1 million), as well as increased demand from legacy UFP medical customers. The increase in sales to customers in the aerospace and 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 \$54 million from \$48.3 million and gross margins increased to 27.2% from 25.4% due to improved manufacturing overhead coverage and manufacturing efficiencies. SG&A expenses increased to \$29.3 million from \$27.8 million due primarily to increased compensation costs and management hires. Operating income increased to \$24.7 million or 12.5% of sales from \$19.6 million or 10.3% of sales.

Non-operating expense was \$1.1 million compared to \$1.2 million. Interest expense decreased to \$674,000 from \$1.3 million while other expense was \$388,000 versus other income of \$64,000 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 16.5%.

Liquidity

At March 31, 2020, the company had \$7.3 million cash, a current ratio of 3.4X, tangible equity of \$93.8 million or \$12.53 per share, and no debt.

1Q20 cash provided by operations was \$4.7 million consisting \$6.9 million cash earnings and a \$2.2 million increase in working capital. The increase in working capital was due primarily to increases in receivables and inventories, and a decrease in accruals, offset in part by an increase in payables. Capital expenditures of \$1 million resulted in a \$3.6 million increase in cash to \$7.3 million at March 31, 2020.

On February 1, 2018, the company entered into an unsecured \$70 million amended and restated credit agreement with Bank of America that matures on February 1, 2023. The credit facilities consist of a \$20 million term loan and a \$50 million revolving credit facility at an interest rate of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from 0.25% to zero.

Under the restated credit agreement, the company is subject to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant. As of March 31, 2020, the applicable interest rate was approximately 2% and the company was in compliance with all covenants.

Risks

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

Pandemic concerns – While all of the company's operations are located in the US, it participates in a global supply chain. Disruptions to UFPT's supply chain and business operations from a global pandemic, such as the coronavirus, could include the closure of supplier and manufacturer facilities, interruptions in the supply of raw materials and components, personnel absences, or restrictions on the shipment of its suppliers' or customers' products, any of which could adversely affect the company's manufacturing output and delivery schedule.

The company's operations expose it to risks associated with the COVID-19 pandemic. Although the COVID-19 pandemic did not materially impact UFPT's 1Q20, it has since had a materially significant impact on operations. While all of the company's factories are deemed essential, not all of its customers' operations are essential and,

therefore, demand for UFPT's products has been negatively impacted, especially in the automotive and consumer markets, where the impact has been substantial.

Dependence on a small number of customers

The company's top ten customers represented approximately 35% of total revenues in 2019. The loss of sales to a large customer would have a material adverse effect on projected financial results.

Competition

The packaging and component products industries are highly competitive. The company's primary competition for its packaging products has been from smaller independent regional manufacturers. UFPT's competitors may increase their participation in, or new competitors may enter into, the markets in which the company competes.

Economic conditions

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

Environmental considerations

Future government action may impose restrictions affecting the industries in which the company operates. There can be no assurance that any such action will not adversely impact UFP Technologies.

Liquidity

With only 7.5 million shares outstanding and 6.2 million in the float, liquidity issues must be considered. Average daily volume has been approximately 45,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

Miscellaneous

The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

UFP Technologies, Inc.

Balance Sheets
(in thousands \$)

	<u>2017A</u>	<u>2018A</u>	<u>2019A</u>	<u>3/20A</u>	<u>2020E</u>	<u>2021E</u>
Cash and cash equivalents	37,978	3,238	3,743	7,334	27,146	42,210
Receivables	21,381	28,321	28,648	29,449	26,820	29,467
Inventories	12,863	19,576	18,276	20,242	17,474	18,421
Prepaid expenses	1,835	2,206	2,304	2,750	2,750	2,750
Refundable income taxes	<u>1,017</u>	<u>2,285</u>	<u>279</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	75,074	55,626	53,250	59,775	74,190	92,847
Net property, plant and equipment	53,652	57,667	56,739	56,230	55,508	54,417
Goodwill	7,322	51,838	51,838	51,838	51,838	51,838
Intangible assets	-	22,232	20,975	20,661	19,718	18,461
Other assets	<u>2,159</u>	<u>2,235</u>	<u>5,956</u>	<u>5,709</u>	<u>5,709</u>	<u>5,709</u>
Total assets	<u>138,207</u>	<u>189,598</u>	<u>188,758</u>	<u>194,213</u>	<u>206,963</u>	<u>223,272</u>
Current portion of long-term debt	-	2,857	-	-	5,500	-
Deferred revenue	297	2,507	2,574	2,432	2,432	2,432
Accounts payable	4,180	6,836	4,577	7,535	4,271	4,503
Operating lease liabilities	-	-	674	1,140	1,140	1,140
Income taxes payable	-	-	-	5	5	5
Accrued expenses	<u>5,466</u>	<u>8,458</u>	<u>8,483</u>	<u>6,350</u>	<u>7,940</u>	<u>8,723</u>
Total current liabilities	9,943	20,658	16,308	17,462	21,288	16,803
Long-term debt	-	22,286	-	-	-	-
Deferred income taxes	2,440	4,129	4,921	5,342	5,342	5,342
Operating lease liabilities	-	-	2,416	1,687	1,687	1,687
Other liabilities	<u>2,112</u>	<u>2,068</u>	<u>3,122</u>	<u>3,447</u>	<u>3,477</u>	<u>3,477</u>
Total liabilities	<u>14,495</u>	<u>49,141</u>	<u>26,767</u>	<u>27,938</u>	<u>31,794</u>	<u>27,309</u>
Total stockholders' equity	<u>123,712</u>	<u>140,457</u>	<u>161,991</u>	<u>166,275</u>	<u>175,169</u>	<u>195,963</u>
Total liabilities & stockholders' equity	<u>138,207</u>	<u>189,598</u>	<u>188,758</u>	<u>194,213</u>	<u>206,963</u>	<u>223,272</u>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements
(in thousands \$)

	<u>2017A</u>	<u>2018A</u>	<u>2019A</u>	<u>2020E</u>	<u>2021E</u>
Net sales	147,842	190,455	198,381	185,677	204,000
Cost of sales	<u>112,355</u>	<u>142,147</u>	<u>144,422</u>	<u>139,788</u>	<u>147,365</u>
Gross profit	35,487	48,308	53,959	45,889	56,635
Extraordinary items	(51)	938	-	(4)	-
SG&A	<u>23,845</u>	<u>27,758</u>	<u>29,251</u>	<u>30,702</u>	<u>31,300</u>
Operating income	11,693	19,612	24,708	15,191	25,335
Non-operating (expenses) income	<u>166</u>	<u>(1,209)</u>	<u>(1,062)</u>	<u>(403)</u>	<u>-</u>
Income before taxes	11,859	18,403	23,646	14,788	25,335
Income tax (benefit)	<u>2,649</u>	<u>4,092</u>	<u>3,896</u>	<u>3,355</u>	<u>6,334</u>
Net Income / (Loss)	<u>9,210</u>	<u>14,311</u>	<u>19,750</u>	<u>11,433</u>	<u>19,001</u>
EPS	<u>1.26</u>	<u>1.93</u>	<u>2.63</u>	<u>1.52</u>	<u>2.52</u>
Shares Outstanding	7,337	7,430	7,516	7,543	7,545
<u>Margin Analysis</u>					
Gross margin	24.0%	25.4%	27.2%	24.7%	27.8%
SG&A	16.1%	14.6%	14.7%	16.5%	15.3%
Operating margin	7.9%	10.3%	12.5%	8.2%	12.4%
Pretax margin	8.0%	9.7%	11.9%	8.0%	12.4%
Tax rate	22.3%	22.2%	16.5%	22.7%	25.0%
<u>Year / Year Growth</u>					
Total Revenues	1.2%	28.8%	4.2%	(6.4)%	9.9%
Net Income	15.6%	55.4%	38.0%	(42.1)%	66.2%
EPS	14.6%	53.4%	36.4%	(42.3)%	66.2%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

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

	3/19A	6/19A	9/19A	12/19A	2019A	3/20A	6/20E	9/20E	12/20E	2020E	3/21E	6/21E	9/21E	12/21E	2021E
Net sales	47,328	51,399	49,394	50,261	198,381	48,277	43,700	45,500	48,200	185,677	49,500	50,500	51,500	52,500	204,000
Cost of sales	34,831	37,028	36,073	36,490	144,422	35,454	34,086	34,580	35,668	139,788	36,135	36,613	37,080	37,538	147,365
Gross profit	12,497	14,371	13,321	13,771	53,959	12,823	9,614	10,920	12,532	45,889	13,365	13,888	14,420	14,963	56,635
Extraordinary items	-	-	-	-	-	(4)	-	-	-	(4)	-	-	-	-	-
SG&A	7,244	7,799	7,183	7,025	29,251	7,752	7,600	7,650	7,700	30,702	7,750	7,800	7,850	7,900	31,300
Operating income	5,253	6,572	6,138	6,746	24,708	5,075	2,014	3,270	4,832	15,191	5,615	6,088	6,570	7,062	25,335
Non-operating (expenses) income	(470)	(392)	(189)	(11)	(1,062)	(343)	(30)	(20)	(10)	(403)	-	-	-	-	-
Income before taxes	4,783	6,180	5,949	6,735	23,646	4,732	1,984	3,250	4,822	14,788	5,615	6,088	6,570	7,062	25,335
Income tax (benefit)	1,049	1,582	308	958	3,896	841	496	813	1,206	3,355	1,404	1,522	1,643	1,766	6,334
Net Income / (Loss)	3,734	4,598	5,641	5,777	19,750	3,891	1,488	2,438	3,617	11,433	4,211	4,566	4,928	5,297	19,001
EPS	0.50	0.62	0.75	0.77	2.63	0.52	0.20	0.32	0.48	1.52	0.56	0.61	0.65	0.70	2.52
Shares Outstanding	7,466	7,467	7,493	7,545	7,516	7,538	7,545	7,545	7,545	7,543	7,545	7,545	7,545	7,545	7,545
<u>Margin Analysis</u>															
Gross margin	26.4%	28.0%	27.0%	27.4%	27.2%	26.6%	22.0%	24.0%	26.0%	24.7%	27.0%	27.5%	28.0%	28.5%	27.8%
SG&A	15.3%	15.2%	14.5%	14.0%	14.7%	16.1%	17.4%	16.8%	16.0%	16.5%	15.7%	15.4%	15.2%	15.0%	15.3%
Operating margin	11.1%	12.8%	12.4%	13.4%	12.5%	10.5%	4.6%	7.2%	10.0%	8.2%	11.3%	12.1%	12.8%	13.5%	12.4%
Pretax margin	10.1%	12.0%	12.0%	13.4%	11.9%	9.8%	4.5%	7.1%	10.0%	8.0%	11.3%	12.1%	12.8%	13.5%	12.4%
Tax rate	21.9%	25.6%	5.2%	14.2%	16.5%	17.8%	25.0%	25.0%	25.0%	22.7%	25.0%	25.0%	25.0%	25.0%	25.0%
<u>Year / Year Growth</u>															
Total Revenues	10.2%	4.9%	3.3%	(0.9)%	4.2%	2.0%	(15.0)%	(7.9)%	(4.1)%	(6.4)%	2.5%	15.6%	13.2%	8.9%	9.9%
Net Income	110.1%	15.2%	36.5%	31.0%	38.0%	4.2%	(67.6)%	(56.8)%	(37.4)%	(42.1)%	8.2%	206.8%	102.2%	46.5%	66.2%
EPS	107.7%	14.4%	35.4%	29.6%	36.4%	3.2%	(68.0)%	(57.1)%	(37.4)%	(42.3)%	8.1%	206.8%	102.2%	46.5%	66.2%

Source: Company filings and Taglich Brothers' estimates

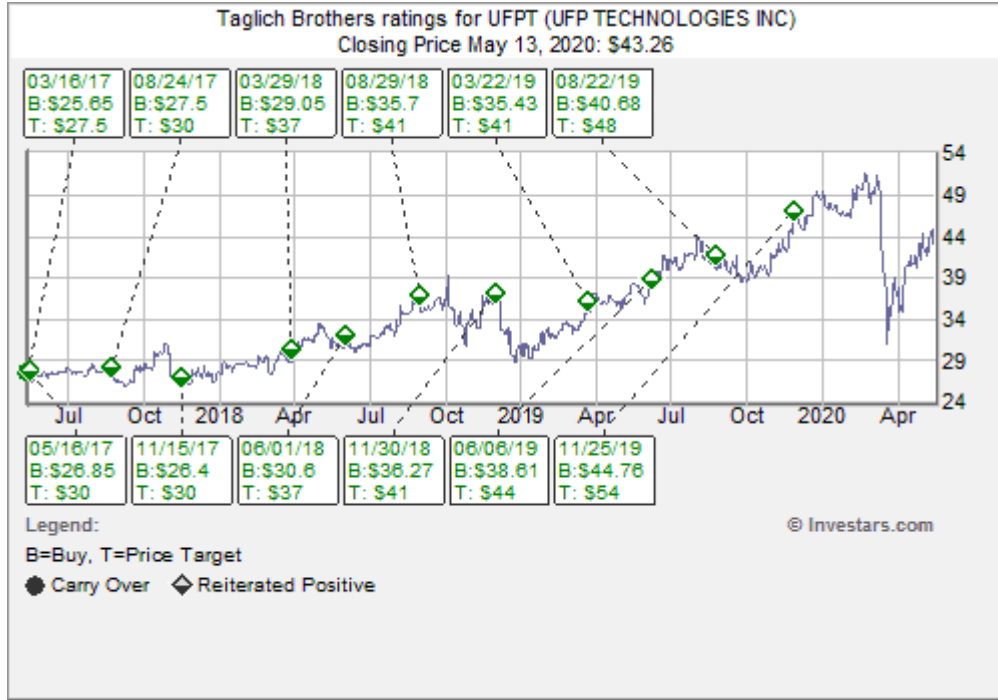
UFP Technologies, Inc.

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

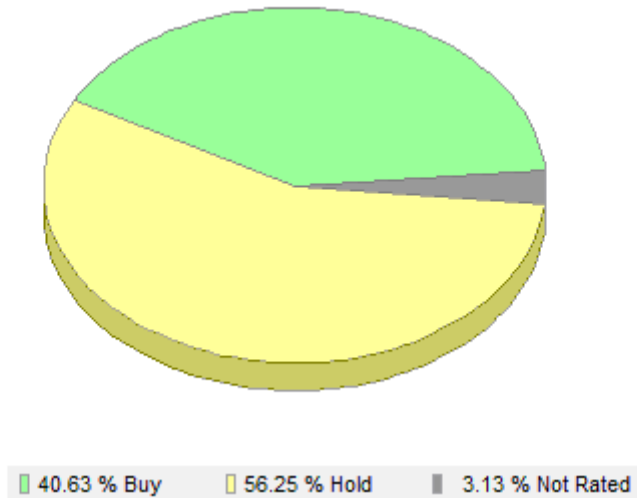
	<u>2017A</u>	<u>2018A</u>	<u>2019A</u>	<u>3M20A</u>	<u>2020E</u>	<u>2021E</u>
Net income	9,210	14,311	19,750	3,891	11,433	19,001
Depreciation & amortization	5,635	7,831	8,172	2,066	7,988	7,848
(Gain) loss on disposal of property, plant and equipment	7	(47)	-	(4)	(4)	-
Share-based compensation	1,068	1,212	1,591	537	1,600	1,600
Excess tax benefit on share-based compensation	-	-	-	-	-	-
Deferred income taxes	<u>(1,019)</u>	<u>1,881</u>	<u>792</u>	<u>421</u>	<u>421</u>	<u>-</u>
Cash earnings	14,901	25,188	30,305	6,911	21,438	28,449
<i>Changes in assets and liabilities</i>						
Receivables	(132)	(2,556)	(327)	(801)	1,828	(2,647)
Inventories	1,288	(2,295)	1,300	(1,966)	803	(947)
Prepaid expenses	446	(249)	(98)	(446)	(446)	-
Refundable income taxes	(210)	(1,268)	2,006	284	279	-
Other assets	(228)	(76)	110	247	247	-
Accounts payable	93	1,113	(2,472)	2,726	(573)	232
Accrued expenses and other	1,065	1,472	25	(2,133)	(543)	784
Deferred revenue	-	35	67	(142)	(142)	-
Other liabilities	<u>246</u>	<u>(44)</u>	<u>313</u>	<u>62</u>	<u>355</u>	<u>-</u>
(Increase) decrease in working capital	2,568	(3,868)	924	(2,169)	1,807	(2,579)
Net Cash Provided by Operations	17,469	21,320	31,229	4,742	23,245	25,871
Additions to property, plant and equipment	(10,382)	(5,428)	(5,778)	(1,020)	(5,500)	(5,500)
Cash paid for acquisitions (net)	-	(76,978)	-	-	-	-
Proceeds from sale of fixed assets	<u>7</u>	<u>77</u>	<u>4</u>	<u>13</u>	<u>13</u>	<u>-</u>
Net Cash Used in Investing	(10,375)	(82,329)	(5,774)	(1,007)	(5,487)	(5,500)
Proceeds from line of credit	-	36,000	-	-	5,500	(5,500)
Payments on line of credit	-	(28,000)	(8,000)	-	-	-
Proceeds from long-term borrowings	-	20,000	-	-	-	-
Proceeds from exercise of stock options	677	1,270	705	416	705	705
Payment of statutory withholdings for stock options exercised	(296)	(144)	(512)	(560)	(560)	(512)
Principal repayments of long-term debt	<u>(856)</u>	<u>(2,857)</u>	<u>(17,143)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Financing	(475)	26,269	(24,950)	(144)	5,645	(5,307)
Net Change in Cash	6,619	(34,740)	505	3,591	23,403	15,064
Cash - Beginning of Period	<u>31,359</u>	<u>37,978</u>	<u>3,238</u>	<u>3,743</u>	<u>3,743</u>	<u>27,146</u>
Cash - End of Period	<u>37,978</u>	<u>3,238</u>	<u>3,743</u>	<u>7,334</u>	<u>27,146</u>	<u>42,210</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	1	5
Hold		
Sell		
Not Rated	1	50

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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.