

Research Report – Update

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

UFP Technologies, Inc.

Rating: Buy

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June 6, 2019

UFPT \$38.61 — (NASDAQ CM)

	2017A	2018A	2019E	2020E
Revenues (millions)	\$147.81	\$190.5	\$202.2	\$214.0
Earnings per share (diluted)	\$1.26	\$1.93	\$2.22	\$2.73

52-Week range	\$39.98 – \$27.80	Fiscal year ends:	December
Shares outstanding as of 5/1/19	7.4 million	Revenue per share (TTM)	\$26.17
Approximate float	6.2 million	Price/Sales (TTM)	1.5X
Market capitalization	\$286 million	Price/Sales (2020)E	1.4X
Tangible book value/share	\$9.50	Price/Earnings (TTM)	17.6X
Price/tangible book	4.1X	Price/Earnings (2020)E	14.1X

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures components, subassemblies, products and packaging utilizing specialized foams, films, and plastics primarily for the medical market. (www.ufpt.com)

Key investment considerations:

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$44.00 per share from \$41.00 based on our increased 2020 EPS estimate and a reduced risk profile.

In 2018, the company made a strategic acquisition (Dielectrics) to grow its higher margin sales to the medical market, which resulted in the majority of UFPT's sales being generated from this growing segment. Dielectrics added sales of \$36.2 million in 2018 on top of 5.7% organic growth in UFPT's sales within the medical market.

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

We project gross margins of 27% in 2020, up from an estimated 26% in 2019 and 25.4% in 2018.

Our cash flow projections should enable the company to pay off its debt by the end of 2019 and generate close to \$23 million cash in 2020.

1Q19 revenue (10Q released on 5/10/19) increased 10.2% to \$47.3 million with EPS of \$0.50, up from \$0.24 in the year ago period. We projected sales of \$45.1 million and EPS of \$0.40.

For 2019, we project 6.2% revenue growth to \$202.2 million (prior was \$200 million) and EPS of \$2.22 (prior was \$2.13). Our forecast primarily reflects 1Q19 results.

For 2020, we project revenue growth of 5.8% to \$214 million (prior was \$211 million) and EPS of \$2.73 (prior was \$2.65). Our revised forecast reflects a full year's contribution from new medical programs awarded in 2019 and continued growth of the company's medical product offerings.

Please view our disclosures on pages 11 - 13.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$44.00 per share from \$41.00 based on our increased 2020 EPS estimate and a reduced risk profile. Our reduced risk profile stems from new medical programs awarded in 2019, increased volumes from existing programs, and our cash flow projections that should enable the company to pay off its debt by the end of 2019 and generate close to \$23 million cash in 2020.

In 2018, the company made a strategic acquisition (Dielectrics) to grow its higher margin sales to the medical market, which resulted in the majority of UFPT’s sales being generated from this growing segment. In 2018, Dielectrics added sales of \$36.2 million on top of 5.7% organic growth in UFPT’s sales within the medical market. We project the contribution from new medical programs in 2019 and continued growth of the company’s product offerings for its medical market customers should result in higher sales and margin expansion through 2020.

Shares of UFP Technologies trade at a forward multiple that is in line with its direct competitors (see chart below). With the acquisition of Dielectrics and continued strong growth in medical market sales, we project 23% EPS growth versus 8% for its competitors in 2020.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2020 P/E	Projected EPS Growth to 2020
Packaging Corp of America	PKG	94.54	8,933	11.2	11.9	-3%
Sealed Air	SEE	44	6,851	17.0	14.5	11%
Graphic Packaging	GPK	13.98	4,128	16.6	14.4	14%
Bemis	BMS	56.51	5,154	20.0	17.8	6%
Greif	GEF	38.82	1,976	10.4	9.4	12%
Peer Average				15.0	13.6	8%
Company						
UFP Technologies	UFPT	38.61	286	17.6	14.1	23%

Source: Taglich Brothers estimates, Thomson Reuters

We believe UFPT’s forward P/E multiple should expand above its competitors as strong earnings growth is recognized. We applied a multiple of 17X (unchanged) to our 2020 EPS projection of \$2.73, discounted to account for execution risk, to obtain a year-ahead value of approximately \$44.00 per share.

Business

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

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



Source: UFP Technologies

In 2018, almost 60% of UFPT's sales were to the medical device industry with the remaining industries accounting for between 5.6% (industrial) to 13.1% (consumer) of sales.

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

Industry Outlook

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

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes, orthopedic implants, and other similar products. An aging population and technological advancements are among the top factors driving the medical device industry's growth over the next five years. IBISWorld forecasted medical device industry average annual sales growth of approximately 2.4% to \$44.1 billion in 2023 from 2019.

IBISWorld cited changing demographics in the US as being favorable to the industry. Although the majority of baby boomers are still under the age of 65, a significant portion of the group will cross this age threshold over the five years to 2023, resulting in annualized growth of 3.2% in the 65-and-over demographic. Medical innovations will continue to expand the average lifespan, with high-tech fields such as biotechnology and 3D printing likely enabling the development of new therapeutic and diagnostic product lines.

The future of the global medical device market looks to have expansion opportunities in public and private hospitals. ResearchandMarkets projects the global medical device market to reach an estimated \$409.5 billion by 2023, growing at a compound annual growth rate (CAGR) of 4.5% from 2018 to 2023. Similar to IBISWorld, ResearchandMarkets expects major drivers of this growth to be healthcare expenditures, technological developments, an aging population, and chronic diseases.

BCC Research estimates the global medical device market to grow from \$521.2 billion in 2017 to \$674.5 billion by 2022 for a CAGR of 5.3%. BCC Research reports stringent regulations as a key growth factor that is specific to the mature markets in the US and Europe. Regulations have compelled medical device manufacturers in those regions to launch sophisticated devices that incorporate new materials, provide in-depth indications, and generate new kinds of data. Clinical research continually demands more technically sophisticated medical devices in this highly competitive market. As such, companies are constantly reinventing their product portfolios to enter new markets and position themselves as major players in the healthcare system.

A growing end market for UFPT's products should bode well for sales through our forecast horizon.

Economic Outlook

Although the majority of the company's revenue is generated by sales to the medical market which are not significantly impacted by changes in the economy, approximately 40% is tied to economically sensitive end markets in the US. The economic outlook for this region could have an adverse effect on the company's sales through our forecast horizon.

In April 2019, the IMF lowered its global economic growth estimate to 3.3% for 2019 from its January 2019 estimate of 3.5%, but kept GDP unchanged at 3.6% for 2020. The downward revision for 2019 reflects a notable slowing of economic activity in the second half of 2018. Key factors affecting major economies include a slowdown in China's growth and increased trade tensions with the US. The economy in the euro area was less than expected due in part to weakened consumer confidence and disrupted car production in Germany stemming from the introduction of new emission standards.

The IMF lowered its 2019 economic growth estimate for the US to 2.3% from its January 2019 forecast of 2.5%. The 2020 estimate is up 0.1% to 1.9% from 1.8%. The downward revision for 2019 reflects the impact of the government shutdown and somewhat lower fiscal spending than previously anticipated, while the modest upward revision to 2020 reflects a more accommodative stance on monetary policy.

The second estimate of US GDP growth (released on May 30, 2019) showed the US economy grew at an annual rate of 3.1% in 1Q19, up from 2.2% in 4Q18. The 1Q19 US GDP growth estimate reflects increases in consumer spending, inventory investment, exports, state and local government spending, and business investment.

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.

Some of UFPT's public competitors include Graphic Packaging, Packaging Corp. of America, Greif, Bemis Company, and Sealed Air Corp. TTM sales and gross margins for UFP Technologies and its public competitors are shown in the table at right.

Company	Sales TTM	Gross Margin
Graphic Packaging	\$6.1B (3/19)	15.6%
Packaging Corp. of America	\$7.1B (3/19)	23.5%
Greif	\$3.9B (1/19)	20.4%
Bemis Company	\$4.1B (3/19)	19.8%
Sealed Air Corp.	\$4.7B (3/19)	31.8%
UFP Technologies	\$194.9M (3/19)	24.8%

Source: Yahoo! Finance

UFPT's margins are at the high end of the range for our comparison group, due arguably to the company's ability to differentiate its products. Most of the company's competitors primarily offer conventional shipping and packaging products (i.e. shipping containers and boxes) or flexible packaging products (i.e. plastic bags, films and laminates) whereas UFP Technologies offers products that are custom designed and engineered for specific applications (i.e. customized foam case inserts for the electronics industry).

Projections

The company's February 2018 acquisition of Dielectrics added \$36.2 million to UFPT's 2018 sales to the medical market. A full year's contribution from Dielectrics and a growing medical market should help UFPT's sales continue their upward trend in 2019. The increase in high margin medical sales should boost margins through our forecast horizon.

2019 Forecast

For 2019, we project revenue growth of 6.2% to \$202.2 million and net income of \$16.6 million or \$2.22 per share. We previously forecast revenue of \$200 million and net income of \$15.9 million or \$2.13 per share. Our forecast primarily reflects 1Q19 results.

We project gross margins increasing to 26.0% from 25.4% in 2018, as higher margin medical sales continue to grow. SG&A expenses should increase to \$29.6 million from \$27.8 million due primarily to increased compensation costs. SG&A margins should increase to 14.7% from 14.6% in 2018. We project operating income growth of 17.1% to \$23 million with margins increasing to 11.4% from 10.3%. Our tax rate forecast is 25.1%.

In 2019, we project \$29.8 million cash from operations from cash earnings of \$26.1 million and a \$3.6 million decrease in working capital primarily due to an increase in other liabilities. We project an \$18,000 decrease in cash to \$3.2 million at the end of 2019 after debt repayments of \$25.1 million and \$5.5 million of capital expenditures.

2020 Forecast

For 2020, we project revenue growth of 5.8% to \$214 million and net income of \$20.4 million or \$2.73 per share. We previously forecast revenue of \$211 million and net income of \$19.8 million or \$2.65 per share. Our revised forecast reflects a full year's contribution from new medical programs awarded in 2019 and continued growth of the company's medical product offerings.

We project gross margins increasing to 27% from our projected 26% in 2018 as higher margin medical sales continue to grow as a percentage of total sales. SG&A expenses should increase to \$30.2 million from our projected \$29.6 million in 2019 due primarily to increased compensation costs. SG&A margins should decrease to 14.1% from 14.7% in 2019. We project operating income growth of 20.1% to \$27.6 million with margins increasing to 12.9% from 11.4%. Our tax rate forecast is 26%.

In 2020, we project \$27.5 million cash from operations from cash earnings of \$29.4 million and a \$1.9 million increase in working capital primarily due to increased receivables. We project a \$22.9 million increase in cash to \$26.1 million at the end of 2020 after \$5.5 million of capital expenditures.

1Q19 Financial Results

Sales increased 10.2% to \$47.3 million with net income of \$3.7 million or \$0.50 per share, up from \$1.8 million or \$0.24 per share. We projected sales of \$45.1 million and net income of \$3 million or \$0.40 per share.

Growth was primarily due to increased sales to the medical, aerospace and defense and automotive markets of 19.4%, 42% and 7.1%, respectively. On a combined basis, sales to the consumer, electronics and industrial markets declined 15.6%. The increased sales to the medical market was primarily due to an extra month of sales at Dielectrics (acquired February 1, 2018) as well as a general increase in demand for medical components. The increase in sales to the aerospace and defense market was primarily due to increased government spending. The increase in sales to the automotive market was primarily due to a new program from an existing customer. The decline in sales to the consumer, electronics and industrial markets was primarily due to fewer orders for protective packaging from several customers due to excess inventories.

Gross profit increased to \$12.5 million from \$10.2 million and gross margins increased to 26.4% from 23.7% due to improved manufacturing overhead coverage and improved manufacturing efficiencies. SG&A expenses increased to \$7.2 million from \$6.6 million due primarily to an extra month of SG&A from Dielectrics. Operating income increased to \$5.3 million or 11.1% of sales from \$2.6 million or 6% of sales.

Non-operating expense was \$470,000 compared to income of \$198,000. Interest expense decreased to \$231,000 from \$248,000 while other expense was \$239,000 versus other income of \$50,000 in the year-ago period. The decrease in interest expense was primarily due to a reduced debt level. The increase in other expense was related to the fair value of a swap liability which was caused by a decrease in expectations of future interest rate increases. The company had an effective income tax rate of 21.9%.

Liquidity

At March 31, 2019, the company had \$2.5 million cash, a current ratio of 2.9X, tangible equity of \$70.7 million or \$9.50 per share, and \$22.1 million of debt for a debt to tangible equity ratio of approximately 0.3X.

1Q19 cash provided by operations of \$3.6 million consisted of \$6.5 million in cash earnings and a \$2.8 million increase in working capital. The increase in working capital was primarily due to a decrease in accruals. Capital expenditures of \$1.4 million and a \$3 million pay down of debt resulted in a \$745,000 decrease in cash to \$2.5 million at March 31, 2019.

On February 1, 2018, the company entered into an unsecured \$70 million amended and restated credit agreement with Bank of America that matures on February 1, 2023. The credit facilities consist of a \$20 million term loan and a \$50 million revolving credit facility at an interest rate of LIBOR plus a margin that ranges from 1.0% to 1.5% or, at the discretion of the company, the bank's prime rate less a margin that ranges from .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, 2019, the applicable interest rate was 3.5% and the company was in compliance with all covenants.

Risks

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

Dependence on a small number of customers

The company's top ten customers represented approximately 29% of total revenues in 2018. The loss of sales to a large customer would have a material adverse effect on projected financial results.

Competition

The packaging and component products industries are highly competitive. The company's primary competition for its packaging products has been from smaller independent regional manufacturers. UFPT's component products face competition from smaller companies that typically concentrate on production of component products for specific industries.

Economic conditions

Poor economic conditions could negatively impact sales of the company's packaging customers.

Environmental considerations

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

Liquidity

With only 7.4 million shares outstanding and 6.2 million in the float, liquidity issues must be considered. Average daily volume has been approximately 21,000 shares. Any significant trading in shares of UFPT could result in large swings in the price of the stock.

Miscellaneous

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

UFP Technologies, Inc.

Balance Sheets
(in thousands \$)

	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	<u>3/19A</u>	<u>2019E</u>	<u>2020E</u>
Cash and cash equivalents	31,359	37,978	3,238	2,493	3,220	26,109
Receivables	21,249	21,381	28,321	29,772	31,458	33,289
Inventories	14,151	12,863	19,576	19,437	20,636	21,546
Prepaid expenses	2,281	1,835	2,206	1,842	1,842	1,842
Refundable income taxes	<u>807</u>	<u>1,017</u>	<u>2,285</u>	<u>1,504</u>	<u>1,504</u>	<u>1,504</u>
Total current assets	69,847	75,074	55,626	55,048	58,659	84,290
Net property, plant and equipment	48,516	53,652	57,667	57,455	51,515	50,664
Goodwill	7,322	7,322	51,838	51,838	51,838	51,838
Intangible assets	318	-	22,232	21,918	20,975	19,718
Other assets	<u>1,931</u>	<u>2,159</u>	<u>2,235</u>	<u>6,404</u>	<u>6,404</u>	<u>6,404</u>
Total assets	<u>127,934</u>	<u>138,207</u>	<u>189,598</u>	<u>192,663</u>	<u>189,391</u>	<u>212,914</u>
Current portion of long-term debt	856	-	2,857	2,857	-	-
Deferred revenue	-	297	2,507	2,972	2,972	2,972
Accounts payable	4,002	4,180	6,836	6,037	7,065	7,376
Operating lease liabilities	-	-	-	1,152	1,152	1,152
Accrued expenses	<u>4,698</u>	<u>5,466</u>	<u>8,458</u>	<u>5,952</u>	<u>8,981</u>	<u>9,504</u>
Total current liabilities	9,556	9,943	20,658	18,970	20,170	21,004
Long-term debt	-	-	22,286	19,286	-	-
Deferred income taxes	3,459	2,440	4,129	4,553	4,553	4,553
Other liabilities	<u>1,866</u>	<u>2,112</u>	<u>2,068</u>	<u>5,355</u>	<u>5,355</u>	<u>5,355</u>
Total liabilities	<u>14,881</u>	<u>14,495</u>	<u>49,141</u>	<u>48,164</u>	<u>30,078</u>	<u>30,912</u>
Total stockholders' equity	<u>113,053</u>	<u>123,712</u>	<u>140,457</u>	<u>144,499</u>	<u>159,314</u>	<u>182,002</u>
Total liabilities & stockholders' equity	<u>127,934</u>	<u>138,207</u>	<u>189,598</u>	<u>192,663</u>	<u>189,391</u>	<u>212,914</u>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements
(in thousands \$)

	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	2019E	2020E
Net sales	146,132	147,842	190,455	202,228	214,000
Cost of sales	<u>111,482</u>	<u>112,355</u>	<u>142,147</u>	149,611	156,206
Gross profit	34,650	35,487	48,308	52,617	57,794
Extraordinary items	(1,692)	(51)	938	-	-
SG&A	<u>24,105</u>	<u>23,845</u>	<u>27,758</u>	29,644	30,200
Operating income	12,237	11,693	19,612	22,973	27,594
Non-operating (expenses) income	<u>80</u>	<u>166</u>	<u>(1,209)</u>	(820)	-
Income before taxes	12,317	11,859	18,403	22,153	27,594
Income tax (benefit)	<u>4,347</u>	<u>2,649</u>	<u>4,092</u>	5,565	7,174
Net Income / (Loss)	<u>7,970</u>	<u>9,210</u>	<u>14,311</u>	16,588	20,419
EPS	<u>1.10</u>	<u>1.26</u>	<u>1.93</u>	2.22	2.73
Shares Outstanding	7,275	7,337	7,430	7,469	7,470
<u>Margin Analysis</u>					
Gross margin	23.7%	24.0%	25.4%	26.0%	27.0%
SG&A	16.5%	16.1%	14.6%	14.7%	14.1%
Operating margin	8.4%	7.9%	10.3%	11.4%	12.9%
Pretax margin	8.4%	8.0%	9.7%	11.0%	12.9%
Tax rate	35.3%	22.3%	22.2%	25.1%	26.0%
<u>Year / Year Growth</u>					
Total Revenues	5.2%	1.2%	28.8%	6.2%	5.8%
Net Income	5.0%	15.6%	55.4%	15.9%	23.1%
EPS	4.2%	14.6%	53.4%	15.3%	23.1%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

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

	<u>3/18A</u>	<u>6/18A</u>	<u>9/18A</u>	<u>12/18A</u>	<u>2018A</u>	<u>3/19A</u>	<u>6/19E</u>	<u>9/19E</u>	<u>12/19E</u>	<u>2019E</u>	<u>3/20E</u>	<u>6/20E</u>	<u>9/20E</u>	<u>12/20E</u>	<u>2020E</u>
Net sales	42,931	49,019	47,808	50,697	190,455	47,328	51,500	51,600	51,800	202,228	52,500	53,500	53,750	54,250	214,000
Cost of sales	<u>32,746</u>	<u>36,033</u>	<u>35,377</u>	<u>37,991</u>	<u>142,147</u>	<u>34,831</u>	<u>38,265</u>	<u>38,236</u>	<u>38,280</u>	149,611	<u>38,719</u>	<u>39,189</u>	<u>39,103</u>	<u>39,196</u>	156,206
Gross profit	10,185	12,986	12,431	12,706	48,308	12,497	13,236	13,364	13,520	52,617	13,781	14,311	14,647	15,054	57,794
Extraordinary items	1,029	(100)	5	4	938	-	-	-	-	-	-	-	-	-	-
SG&A	<u>6,592</u>	<u>7,417</u>	<u>6,541</u>	<u>7,208</u>	<u>27,758</u>	<u>7,244</u>	<u>7,450</u>	<u>7,450</u>	<u>7,500</u>	29,644	<u>7,500</u>	<u>7,550</u>	<u>7,550</u>	<u>7,600</u>	30,200
Operating income	2,564	5,669	5,885	5,494	19,612	5,253	5,786	5,914	6,020	22,973	6,281	6,761	7,097	7,454	27,594
Non-operating (expenses) income	<u>(198)</u>	<u>(394)</u>	<u>(258)</u>	<u>(358)</u>	<u>(1,209)</u>	<u>(470)</u>	<u>(175)</u>	<u>(115)</u>	<u>(60)</u>	(820)	-	-	-	-	-
Income before taxes	2,366	5,275	5,627	5,136	18,403	4,783	5,611	5,799	5,960	22,153	6,281	6,761	7,097	7,454	27,594
Income tax (benefit)	<u>589</u>	<u>1,285</u>	<u>1,493</u>	<u>726</u>	<u>4,092</u>	<u>1,049</u>	<u>1,459</u>	<u>1,508</u>	<u>1,550</u>	5,565	1,633	1,758	1,845	1,938	7,174
Net Income / (Loss)	<u>1,777</u>	<u>3,990</u>	<u>4,134</u>	<u>4,410</u>	<u>14,311</u>	<u>3,734</u>	<u>4,152</u>	<u>4,292</u>	<u>4,410</u>	16,588	4,648	5,003	5,252	5,516	20,419
EPS	<u>0.24</u>	<u>0.54</u>	<u>0.56</u>	<u>0.59</u>	<u>1.93</u>	<u>0.50</u>	<u>0.56</u>	<u>0.57</u>	<u>0.59</u>	2.22	0.62	0.67	0.70	0.74	2.73
Shares Outstanding	7,378	7,413	7,435	7,464	7,430	7,466	7,470	7,470	7,470	7,469	7,470	7,470	7,470	7,470	7,470
<u>Margin Analysis</u>															
Gross margin	23.7%	26.5%	26.0%	25.1%	25.4%	26.4%	25.7%	25.9%	26.1%	26.0%	26.3%	26.8%	27.3%	27.8%	27.0%
SG&A	15.4%	15.1%	13.7%	14.2%	14.6%	15.3%	14.5%	14.4%	14.5%	14.7%	14.3%	14.1%	14.0%	14.0%	14.1%
Operating margin	6.0%	11.6%	12.3%	10.8%	10.3%	11.1%	11.2%	11.5%	11.6%	11.4%	12.0%	12.6%	13.2%	13.7%	12.9%
Pretax margin	5.5%	10.8%	11.8%	10.1%	9.7%	10.1%	10.9%	11.2%	11.5%	11.0%	12.0%	12.6%	13.2%	13.7%	12.9%
Tax rate	24.9%	24.4%	26.5%	14.1%	22.2%	21.9%	26.0%	26.0%	26.0%	25.1%	26.0%	26.0%	26.0%	26.0%	26.0%
<u>Year / Year Growth</u>															
Total Revenues	15.9%	29.4%	34.0%	36.2%	28.8%	10.2%	5.1%	7.9%	2.2%	6.2%	10.9%	3.9%	4.2%	4.7%	5.8%
Net Income	(18.1)%	51.7%	143.9%	62.4%	55.4%	110.1%	4.1%	3.8%	0.0%	15.9%	24.5%	20.5%	22.4%	25.1%	23.1%
EPS	(19.0)%	49.9%	141.2%	60.4%	53.4%	107.7%	3.3%	3.3%	(0.1)%	15.3%	24.4%	20.5%	22.4%	25.1%	23.1%

Source: Company filings and Taglich Brothers' estimates

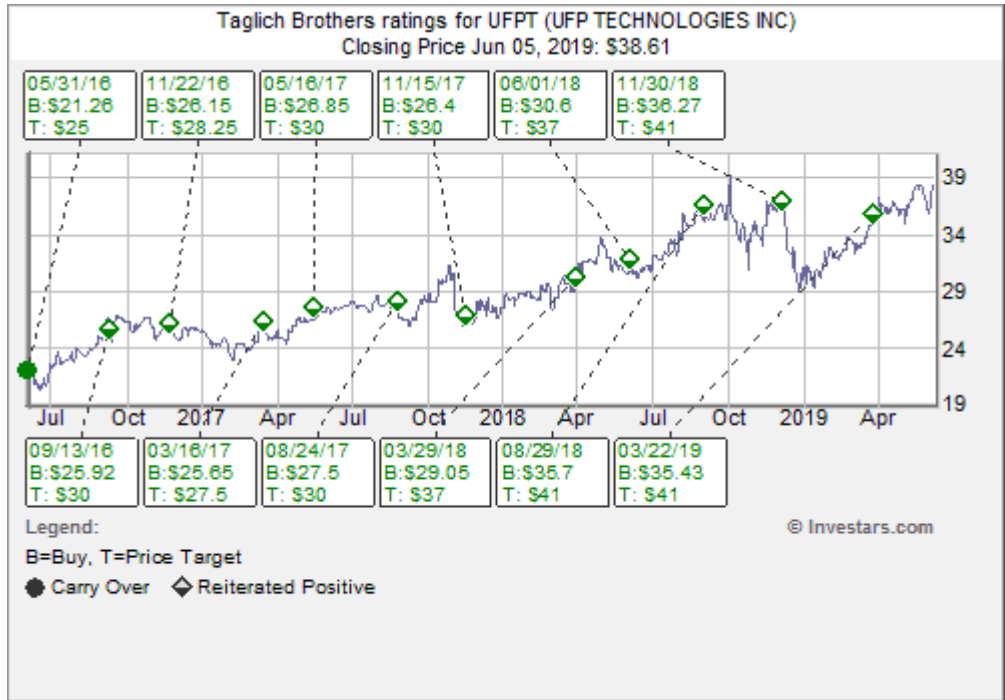
UFP Technologies, Inc.

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

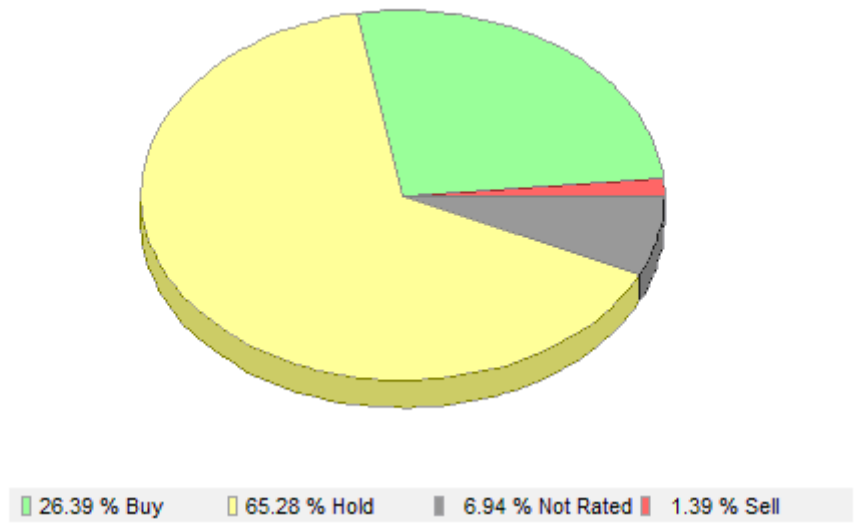
	<u>2016A</u>	<u>2017A</u>	<u>2018A</u>	<u>3M19A</u>	<u>2019E</u>	<u>2020E</u>
Net income	7,970	9,210	14,311	3,734	16,588	20,419
Depreciation & amortization	5,634	5,635	7,831	2,022	7,722	7,608
(Gain) loss on disposal of property, plant and equipment	2	7	(47)	-	-	-
Share-based compensation	1,056	1,068	1,212	294	1,400	1,400
Excess tax benefit on share-based compensation	(145)	-	-	-	-	-
Deferred income taxes	<u>576</u>	<u>(1,019)</u>	<u>1,881</u>	<u>424</u>	<u>424</u>	<u>-</u>
Cash earnings	15,093	14,901	25,188	6,474	26,134	29,427
<i>Changes in assets and liabilities</i>						
Receivables	(3,768)	(132)	(2,556)	(1,451)	(3,137)	(1,831)
Inventories	51	1,288	(2,295)	139	(1,060)	(910)
Prepaid expenses	(1,351)	446	(249)	364	364	-
Refundable income taxes	209	(210)	(1,268)	781	781	-
Other assets	(97)	(228)	(76)	(338)	402	-
Accounts payable	(683)	93	1,113	(907)	1,997	311
Accrued expenses and other	(361)	1,065	1,472	(2,506)	523	523
Deferred revenue	-	-	35	465	465	-
Retirement and other liabilities	<u>213</u>	<u>246</u>	<u>(44)</u>	<u>608</u>	<u>3,287</u>	<u>-</u>
(Increase) decrease in working capital	(5,787)	2,568	(3,868)	(2,845)	3,622	(1,907)
Net Cash Provided by Operations	9,306	17,469	21,320	3,629	29,756	27,521
Additions to property, plant and equipment	(7,206)	(10,382)	(5,428)	(1,388)	(5,500)	(5,500)
Cash paid for acquisitions (net)	-	-	(76,978)	-	-	-
Proceeds from sale of fixed assets	<u>14</u>	<u>7</u>	<u>77</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Used in Investing	(7,192)	(10,375)	(82,329)	(1,388)	(5,500)	(5,500)
Proceeds from line of credit	-	-	36,000	-	-	-
Payments on line of credit	-	-	(28,000)	(3,000)	(25,143)	-
Proceeds from long-term borrowings	-	-	20,000	-	-	-
Repurchases of common stock	-	-	-	-	-	-
Tax benefit from exercise of non-qualified stock options	145	-	-	-	-	-
Proceeds from exercise of stock options	529	677	1,270	285	1,140	1,140
Payment of statutory withholdings for stock options exercised	(219)	(296)	(144)	(271)	(271)	(271)
Principal repayments of long-term debt	<u>(1,014)</u>	<u>(856)</u>	<u>(2,857)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Financing	(559)	(475)	26,269	(2,986)	(24,274)	869
Net Change in Cash	1,555	6,619	(34,740)	(745)	(18)	22,890
Cash - Beginning of Period	<u>29,804</u>	<u>31,359</u>	<u>37,978</u>	<u>3,238</u>	<u>3,238</u>	<u>3,220</u>
Cash - End of Period	<u>31,359</u>	<u>37,978</u>	<u>3,238</u>	<u>2,493</u>	<u>3,220</u>	<u>26,109</u>

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	8
Hold		
Sell		
Not Rated	2	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

Graphic Packaging (NYSE: GPK)
Packaging Corp. of America (NYSE: PKG)
Greif (NYSE: GEF)
Bemis Company (NYSE: BMS)
Sealed Air Corp. (NYSE: SEE)

Meaning of Ratings

Buy – 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.