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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
August 29, 2018

UFPT $35.70 — (NASDAQ CM)

	2016A	2017A	2018E	2019E
Revenues (millions)	$146.1	$147.8	$192.3	$205.6
Earnings per share (diluted)	$1.10	$1.26	$1.95	$2.68

52-Week range	$37.05 – $25.88	Fiscal year ends:	December
Shares outstanding as of 8/1/18	7.4 million	Revenue per share (TTM)	$22.34
Approximate float	6.0 million	Price/Sales (TTM)	1.6X
Market capitalization	$264 million	Price/Sales (2019)E	1.3X
Tangible book value/share	$7.63	Price/Earnings (TTM)	25.9X
Price/tangible book	4.7X	Price/Earnings (2019)E	13.3X

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures packaging and custom products for the medical, automotive, consumer, electronics, industrial, and aerospace and defense markets using foams, plastics, composites, and natural fiber materials. (www.ufpt.com)

Key investment considerations:

Reiterating Buy rating on UFP Technologies and increasing our twelve-month price target to $41.00 per share from $37.00 due to our increased 2019 EPS projection.

The company's February 2018 acquisition of Dielectrics should provide a significant increase to UFPT's sales and earnings throughout our forecast horizon. In 2017, Dielectrics generated sales of approximately $43 million.

We anticipate Dielectrics to contribute sales of $38 million in 2018 and $44.9 million in 2019 driving UFPT's medical sales to nearly 60% of total sales in 2019. This increase in high margin medical sales is projected to boost margins through our forecast horizon.

We project gross margins of 27.8% in 2019, up from 26.2% in 2018 and 24% in 2017.

2Q18 revenue (10Q released on 8/10/18) increased 29.4% to $49 million with EPS of $0.54, up from $0.36. We projected sales of $49.5 million and EPS of $0.50.

For 2018, we project revenue growth of 30% to $192.3 million (prior was $192.9 million) and EPS of $1.95 (prior was $1.86). Our forecast reflects 2Q18 results.

For 2019, we project revenue growth of 6.9% to $205.6 million and EPS of $2.68. Our revenue forecast is down from our prior forecast of $207.7 million due primarily to a slower ramp in Dielectrics sales than previously anticipated. Our EPS forecast is up from our prior forecast of $2.52 to reflect higher gross margins and a greater pay down of debt resulting in lower interest expense than originally anticipated.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and increasing our twelve-month price target to $41.00 per share from $37.00 due to our increased 2019 EPS projection.

Shares of UFP Technologies continue to trade at a forward discount to its direct competitors (see chart below) due arguably to a lack of recognition of the company's growth potential. With the acquisition of Dielectrics and continued strong growth in medical market sales, we project 37% EPS growth versus 14% for its competitors in 2019.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2019 P/E	Average Projected EPS Growth to 2019
Packaging Corp of America	PKG	111.57	10,646	16.2	12.8	10%
Sealed Air	SEE	40.08	6,329	18.3	14.0	13%
Graphic Packaging	GPK	14.34	4,472	19.9	13.2	28%
Bemis	BMS	50	4,572	18.9	16.3	10%
Greif	GEF	55.02	2,723	17.9	14.1	10%
Peer Average				**18.3**	**14.1**	**14%**
Company						
UFP Technologies	**UFPT**	**35.7**	**264**	**25.9**	**13.3**	**37%**
Source: Taglich Brothers estimates, Thomson Reuters						

UFP Technologies 2019 PE multiple is 13.3X based on our EPS projection of $2.68 while its direct competitors trade at a 2019 multiple of 14.1X. We believe UFPT's P/E multiple should expand above its competitors as strong sales and earnings growth is recognized. We applied a multiple of 17X (unchanged) to our 2019 EPS projection of $2.68, discounted to account for execution risk, to obtain a year-ahead value of approximately $41.00 per share.

Business

UFP Technologies, headquartered in Newburyport, Massachusetts, designs and manufactures packaging and custom products for the medical, automotive, consumer, electronics, industrial, and aerospace and defense markets using foams, plastics, composites, and natural fiber materials.

UFPT's products include automotive interior trim, medical device components, disposable wound care components, athletic padding, air filtration, high-temperature insulation, and military uniform and gear components.

Over 50% of UFPT's sales are to the medical device industry for applications such as compression-molded foam finger splints, orthopedic foam components, and dental fluoride trays. UFPT's other end markets (automotive, aerospace & defense, consumer electronics, and industrial) each account for approximately 6% to 13% of the company's revenue.

The company differentiates itself through the design and production of customized products (such as protective cases and custom foam inserts pictured at right). Through a combination of materials, technology, and engineering, the company is able to produce unique case inserts for surgical instruments, customized repair kits, electronic parts, emergency response equipment, and many other applications.

Source: UFP Technologies

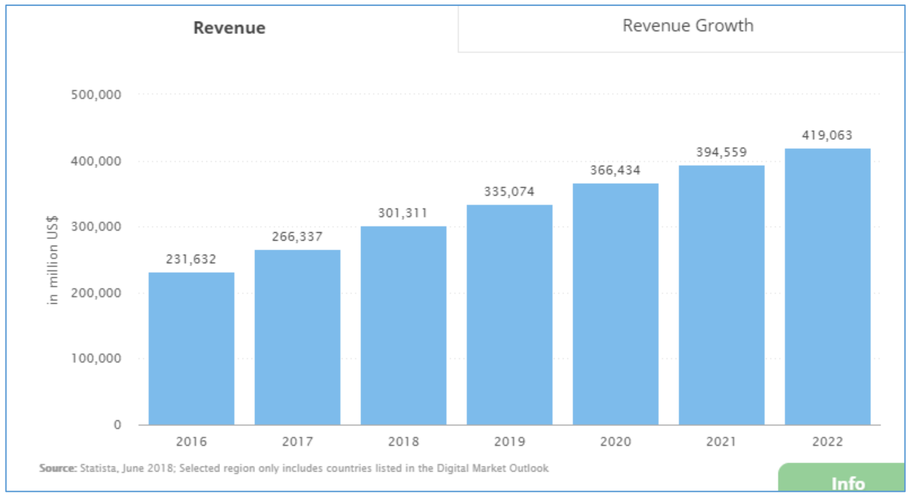
Industry Outlook

IBISWorld forecasted the urethane foam manufacturing industry to grow at an average annual rate of 1.3% to $12.9 billion through 2022. Industry growth is predicated on strong overall domestic demand and a positive economic outlook.

The company's medical products are used in packaging systems for surgical tools, electronic devices, endoscopes and orthopedic implants. 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 2.8% to $50.6 billion in 2023 from 2018.

IBISWorld projected sales in the US car and automobile industry to be flat through 2023 reflecting demand for new vehicles to slow due to the release of pent-up demand in prior years.

UFP Technologies makes products used in the packaging of consumer electronics. This market is projected to show strong growth over the next eight years. According to research by Statista, the worldwide market for consumer electronics is anticipated to grow at an average annual growth rate 10.4% from 2017 to 2022 reaching a value of $419 billion by the end of the forecast period (see graph at right).



UFP Technologies' aerospace and defense products are used in applications such as protective cases and inserts for military equipment (i.e. tools used for large engine rebuilds), uniform and gear components such as backpacks and duty belts, and explosion suppressant foams used in fuel systems of aircrafts. The US Department of Defense's budget requested $686 billion for US defense spending in 2019, $74 billion higher than 2018 and $80 billion higher than 2017. In August 2018, the US President signed into law a fiscal 2019 defense budget of $717 billion, $31 billion higher than what was originally requested. This boost in defense spending over the next two years should bode well for UFPT's sales to this market.

Economic Outlook

Since most of the company's revenue is tied to economically sensitive end markets in the US, increasing economic growth should support our revenue forecast to 2019.

In July 2018, the IMF kept its global economic growth estimate at 3.9% for both 2018 and 2019, unchanged from April 2018. The growth estimates assume gradual monetary tightening but still favorable financial conditions. Domestic demand growth is expected to continue at a strong pace even as overall output growth slows.

The IMF kept its economic growth estimate for the US at 2.9% in 2018 and 2.7% in 2019, unchanged from its April 2018 forecast. The IMF said that substantial fiscal stimulus together with already robust private demand should lift output and lower the unemployment rate below levels to 50 year lows. Imports are set to pick up with stronger domestic demand.

The advance estimate of US GDP growth (released on July 27, 2018) showed the US economy grew at an annual rate of 4.1% in 2Q18, up from 2.2% in 1Q18. The 2Q18 US GDP growth estimate primarily reflects increases in consumer spending, exports, business investment, and government spending.

Competition

The packaging industry is highly competitive. While there are several national companies that sell interior packaging, the company's primary competition for its packaging are smaller independent regional manufacturing companies. The company's foam and fiber packaging products also 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 component products compete with smaller companies that typically concentrate on production of component products for specific industries.

Proximity is a key competitive factor in the packaging business. Companies shipping products typically buy packaging from vendors that are relatively close to their manufacturing facilities to increase shipping efficiency and decrease costs. As many US companies move their manufacturing operations overseas, particularly to the Far East, the associated packaging business often follows. UFP Technologies has lost customers in the past and may lose customers in the future as a result of customers moving their manufacturing facilities offshore, then hiring competitors that operate packaging-production facilities perceived to be more territorially advantageous.

Other competitive factors are price, product performance, product reliability, and customer service. We believe the company's ability to custom design proprietary manufacturing equipment in conjunction with its machinery suppliers enables the company to effectively differentiate its products. For example, UFPT has custom-designed its own lamination machines allowing the company to achieve adhesive bonds between cross-linked foam and fabric and other materials that do not easily combine. These specialty laminates typically command higher prices than traditional foam products.

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	$5.2B (6/18)	13.8%
Packaging Corp. of America	$6.8B (6/18)	21.8%
Greif	$3.8B (4/18)	18.8%
Bemis Company	$4.1B (6/18)	19.2%
Sealed Air Corp.	$4.7B (6/18)	30.5%
UFP Technologies	$164.8M (6/18)	23.8%

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 should provide a significant increase to UFPT's sales and earnings throughout our forecast horizon. In 2017, Dielectrics generated sales of approximately $43 million. We anticipate Dielectrics to contribute sales of $38 million in 2018 and $44.9 million in 2019 driving UFPT's medical sales to nearly 60% of total sales in 2019. The increase in high margin medical sales should boost margins through our forecast horizon.

The company completed the relocation of certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility in 2017. While over $2 million in one-time expenses have occurred in connection with these consolidations, annual cost savings of $1 million are expected due to reduced real estate and labor costs.

2018 Forecast

For 2018, we project revenue growth of 30% to $192.3 million (prior was $192.9 million) and net income of $14.5 million or $1.95 per share (prior was $13.8 million or $1.86 per share). Our forecast reflects 2Q18 results.

With an increase in higher margin medical sales and the consolidation of manufacturing facilities ended, we project gross margins increasing to 26.2% from 24% in 2017. SG&A expenses should increase to $29 million from $23.8 million due primarily to the acquisition of Dielectrics. SG&A margins should decrease to 15.1% from 16.1% in 2017. We project operating income growth of 74.4% to $20.4 million with margins increasing to 10.6% from 7.9%. We project a tax rate of approximately 25%.

In 2018, we project $23.7 million cash from operations primarily from cash earnings. The acquisition of Dielectrics resulted in almost $40 million of debt as of June 30, 2018. Cash from operations and borrowings will not cover capital expenditures, the acquisition, and repayment of debt ($31.4 million). We project a $33 million decrease in cash to $5 million at the end of 2018.

2019 Forecast

For 2019, we project revenue growth of 6.9% to $205.6 million and net income of $19.9 million or $2.68 per share. Our revenue forecast is down from our prior forecast of $207.7 million due primarily to a slower ramp in Dielectrics sales than previously anticipated. Our net income forecast is up from our prior forecast of $18.7 million or $2.52 per share to reflect higher gross margins and a greater pay down of debt resulting in lower interest expense than originally anticipated.

We project gross margins increasing to 27.8% from our 2018 forecast of 26.2% as higher margin medical sales continue to grow. SG&A expenses should increase to $30.2 million from $29 million due primarily to increased compensation costs. SG&A margins should decrease to 14.7% from our 2018 forecast of 15.1%. We project operating income growth of 32.7% to $27.1 million with margins increasing to 13.2% from 10.6%. We are maintaining a tax rate of 25%.

In 2019, we project $26.5 million cash from operations from cash earnings of $28.4 million and a $1.9 million increase in working capital primarily due to increased receivables. We project a $393,000 increase in cash to $5.4 million at the end of 2019 after debt repayments of $21.7 million and $6 million of capital expenditures.

2Q and 2H18 Financial Results

2Q18 - Sales increased 29.4% to $49 million with net income of $4 million or $0.54 per share, up from $2.6 million or $0.36 per share. We projected sales of $49.5 million and net income of $3.7 million or $0.50 per share.

The increase in sales was primarily due to a $9.6 million contribution from Dielectrics. Sales to customers in the medical and consumer markets grew 56.2% and 21%, respectively, while sales to customers in the automotive market declined 17.3%. The increase in sales to customers in the medical market was primarily due to Dielectrics, as well as a general increase in demand. The increase in the consumer market was primarily due to sales of molded fiber protective packaging to a new customer. The decline in the automotive market was primarily due to the phase-out of the automotive door panel program for Mercedes-Benz.

Gross profit increased to $13 million from $9.9 million due primarily to sales growth and gross margin expansion to 26.5% from 26.2%. The increase in gross margins was primarily due to gains in manufacturing efficiencies, strategic price increases, and product mix. SG&A expenses increased to $7.4 million from $6.1 million due primarily to the acquisition of Dielectrics. Operating income increased to $5.7 million from $3.9 million in 2Q17. Operating margins increased to 11.6% compared to 10.4% in the year ago period.

Interest expense was $394,000 versus net interest income of $29,000. The increase in interest expense was primarily due to the debt incurred to finance the acquisition of Dielectrics. The company had an effective income tax rate of 24.4%.

2H18 - Sales increased 22.7% to $91.9 million with net income of $5.8 million or $0.78 per share, up from $4.8 million or $0.66 per share. Net income in 1H18 included $1.1 million of costs related to the February 2018 acquisition of Dielectrics.

The increase in sales was primarily due to a $15.6 million contribution from Dielectrics. Sales to customers in the medical and consumer markets grew 47.5% and 22%, respectively, while sales to customers in the automotive market declined 18.9%. The increase in sales to customers in the medical market was primarily due to Dielectrics, as well as a general increase in demand. The increase in the consumer market was primarily due to sales of molded fiber protective packaging to a new customer. The decline in the automotive market was primarily due to the phase-out of the automotive door panel program for Mercedes-Benz.

Income Statement
(in thousands $)

	6m18A	6m17A
Net sales	91,949	74,939
Cost of sales	68,779	55,482
Gross profit	23,170	19,457
Extraordinary items	930	(55)
SG&A	14,008	12,376
Operating income	8,232	7,136
Interest exp, other inc and exp	(592)	57
Income before taxes	7,640	7,193
Income tax	1,873	2,392
Net Income / (Loss)	5,767	4,801
EPS	0.78	0.66
Shares Outstanding	7,408	7,312
Margin Analysis		
Gross margin	25.2%	26.0%
SG&A	15.2%	16.5%
Operating margin	9.0%	9.5%
Tax rate	24.5%	33.3%
Year / Year Growth		
Total Revenues	22.7%	
Net Income	20.1%	
EPS	18.6%	

Source: Company filings

Gross profit increased to $23.2 million from $19.5 million due primarily to sales growth offset in part by gross margin contraction to 25.2% from 26%. The decrease in gross margins was primarily due to higher material and labor costs and costs incurred at the company's Georgia plant which had virtually no sales due to the phase-out of the Mercedes-Benz program. SG&A expenses increased to $14 million from $12.4 million due primarily to the acquisition of Dielectrics. Operating income increased to $8.2 million from $7.1 million in 2H17. Operating margins decreased to 9% compared to 9.5% in the year ago period.

Non-operating expense was $592,000 and included $677,000 of interest expense offset in part by $85,000 of interest and other income compared to non-operating income of $57,000 which included $84,000 of interest income offset in part by $27,000 of interest expense. The increase in 2019 interest expense was primarily due to the debt incurred to finance the acquisition of Dielectrics. The company had an effective income tax rate of 24.5%.

Liquidity

At June 30, 2018, the company had $5.9 million cash, a current ratio of 2.8X, tangible equity of $56.4 million, and $39.6 million of debt for a debt to tangible equity ratio of approximately 0.7X.

In 1H18, cash provided by operations of $7.4 million consisted of $11 million in cash earnings and a $3.5 million increase in working capital. The increase in working capital was primarily due to an increase in receivables and inventories offset in part by an increase in payables. The acquisition of Dielectrics resulted in a $39.6 million net increase in debt. Cash decreased by $32.1 million to $5.9 million as of June 30, 2018.

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 June 30, 2018, the applicable interest rate was 3.34% 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 2017. 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 million in the float, liquidity issues must be considered. Average daily volume has been approximately 12,000 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.

Balance Sheets
(in thousands $)

	2015A	2016A	2017A	6/18A	2018E	2019E
Cash and cash equivalents	29,804	31,359	37,978	5,915	5,027	5,420
Receivables	17,481	21,249	21,381	30,179	27,803	29,727
Inventories	14,202	14,151	12,863	18,732	16,245	16,983
Prepaid expenses	930	2,281	1,835	2,106	2,106	2,106
Refundable income taxes	1,186	807	1,017	616	616	616
Total current assets	63,603	69,847	75,074	57,548	51,797	54,851
Net property, plant and equipment	46,555	48,516	53,652	58,689	58,451	58,631
Goodwill	7,322	7,322	7,322	51,838	51,838	51,838
Intangible assets	636	318	-	22,860	22,232	20,975
Other assets	1,834	1,931	2,159	2,407	2,407	2,407
Total assets	**119,950**	**127,934**	**138,207**	**193,342**	**186,725**	**188,702**
Current portion of long-term debt	1,011	856	-	2,857	2,857	2,857
Deferred revenue	-	-	297	3,331	3,331	3,331
Accounts payable	4,598	4,002	4,180	8,743	5,279	5,519
Accrued expenses	5,374	4,698	5,466	5,407	7,108	7,600
Total current liabilities	10,983	9,556	9,943	20,338	18,575	19,306
Long-term debt	859	-	-	36,714	21,714	-
Deferred income taxes	2,883	3,459	2,440	2,937	2,937	2,937
Other liabilities	1,653	1,866	2,112	2,267	2,267	2,267
Total liabilities	**16,378**	**14,881**	**14,495**	**62,256**	**45,493**	**24,510**
Total stockholders' equity	**103,572**	**113,053**	**123,712**	**131,086**	**141,232**	**164,192**
Total liabilities & stockholders' equity	**119,950**	**127,934**	**138,207**	**193,342**	**186,725**	**188,702**

Source: Company filings and Taglich Brothers' estimates

Annual Income Statements
(in thousands $)

	2015A	2016A	2017A	2018E	2019E
Net sales	138,850	146,132	147,842	192,250	205,550
Cost of sales	101,397	111,482	112,355	141,895	148,340
Gross profit	37,453	34,650	35,487	50,355	57,210
Extraordinary items	1,731	(1,692)	(51)	929	-
SG&A	24,009	24,105	23,845	29,034	30,150
Operating income	11,713	12,237	11,693	20,392	27,060
Non-operating (expenses) income	27	80	166	(1,134)	(500)
Income before taxes	11,740	12,317	11,859	19,258	26,560
Income tax (benefit)	4,147	4,347	2,649	4,778	6,640
Net Income / (Loss)	7,593	7,970	9,210	14,480	19,920
EPS	1.05	1.10	1.26	1.95	2.68
Shares Outstanding	7,219	7,275	7,337	7,410	7,425
Margin Analysis					
Gross margin	27.0%	23.7%	24.0%	26.2%	27.8%
SG&A	17.3%	16.5%	16.1%	15.1%	14.7%
Operating margin	8.4%	8.4%	7.9%	10.6%	13.2%
Pretax margin	8.5%	8.4%	8.0%	10.0%	12.9%
Tax rate	35.3%	35.3%	22.3%	24.8%	25.0%
Year / Year Growth					
Total Revenues	(0.3)%	5.2%	1.2%	30.0%	6.9%
Net Income	0.4%	5.0%	15.6%	57.2%	37.6%
EPS	(0.2)%	4.2%	14.6%	55.7%	37.3%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statements 2017A - 2019E
(in thousands $)

	3/17A	6/17A	9/17A	12/17A	2017A	3/18A	6/18A	9/18E	12/18E	2018E	3/19E	6/19E	9/19E	12/19E	2019E
Net sales	37,053	37,886	35,684	37,219	147,842	42,931	49,019	49,800	50,500	192,250	50,600	51,100	51,650	52,200	205,550
Cost of sales	27,537	27,945	27,491	29,382	112,355	32,746	36,033	36,503	36,613	141,895	36,584	36,920	37,253	37,584	148,340
Gross profit	9,516	9,941	8,193	7,837	35,487	10,185	12,986	13,297	13,888	50,355	14,016	14,180	14,397	14,616	57,210
Extraordinary items	(5)	(50)	-	4	(51)	1,029	(100)	-	-	929	-	-	-	-	-
SG&A	6,316	6,061	5,693	5,775	23,845	6,592	7,417	7,500	7,525	29,034	7,525	7,525	7,550	7,550	30,150
Operating income	3,205	3,930	2,500	2,058	11,693	2,564	5,669	5,797	6,363	20,392	6,491	6,655	6,847	7,066	27,060
Non-operating (expenses) income	28	29	51	58	166	(198)	(394)	(312)	(230)	(1,134)	(150)	(135)	(120)	(95)	(500)
Income before taxes	3,233	3,959	2,551	2,116	11,859	2,366	5,275	5,485	6,133	19,258	6,341	6,520	6,727	6,971	26,560
Income tax (benefit)	1,062	1,329	856	(599)	2,649	589	1,285	1,371	1,533	4,778	1,585	1,630	1,682	1,743	6,640
Net Income / (Loss)	2,171	2,630	1,695	2,715	9,210	1,777	3,990	4,113	4,599	14,480	4,756	4,890	5,046	5,228	19,920
EPS	0.30	0.36	0.23	0.37	1.26	0.24	0.54	0.55	0.62	1.95	0.64	0.66	0.68	0.70	2.68
Shares Outstanding	7,297	7,323	7,353	7,369	7,337	7,378	7,413	7,425	7,425	7,410	7,425	7,425	7,425	7,425	7,425
Margin Analysis															
Gross margin	25.7%	26.2%	23.0%	21.1%	24.0%	23.7%	26.5%	26.7%	27.5%	26.2%	27.7%	27.8%	27.9%	28.0%	27.8%
SG&A	17.0%	16.0%	16.0%	15.5%	16.1%	15.4%	15.1%	15.1%	14.9%	15.1%	14.9%	14.7%	14.6%	14.5%	14.7%
Operating margin	8.6%	10.4%	7.0%	5.5%	7.9%	6.0%	11.6%	11.6%	12.6%	10.6%	12.8%	13.0%	13.3%	13.5%	13.2%
Pretax margin	8.7%	10.4%	7.1%	5.7%	8.0%	5.5%	10.8%	11.0%	12.1%	10.0%	12.5%	12.8%	13.0%	13.4%	12.9%
Tax rate	32.8%	33.6%	33.6%	35.0%	22.3%	24.9%	24.4%	25.0%	25.0%	24.8%	25.0%	25.0%	25.0%	25.0%	25.0%
Year / Year Growth															
Total Revenues	7.4%	0.0%	(4.1)%	2.0%	1.2%	15.9%	29.4%	39.6%	35.7%	30.0%	17.9%	4.2%	3.7%	3.4%	6.9%
Net Income	102.0%	(3.8)%	(36.5)%	82.1%	15.6%	(18.1)%	51.7%	142.7%	69.4%	57.2%	167.6%	22.6%	22.7%	13.7%	37.6%
EPS	100.8%	(4.5)%	(36.8)%	80.4%	14.6%	(19.0)%	49.9%	140.3%	68.1%	55.7%	165.9%	22.4%	22.7%	13.7%	37.3%

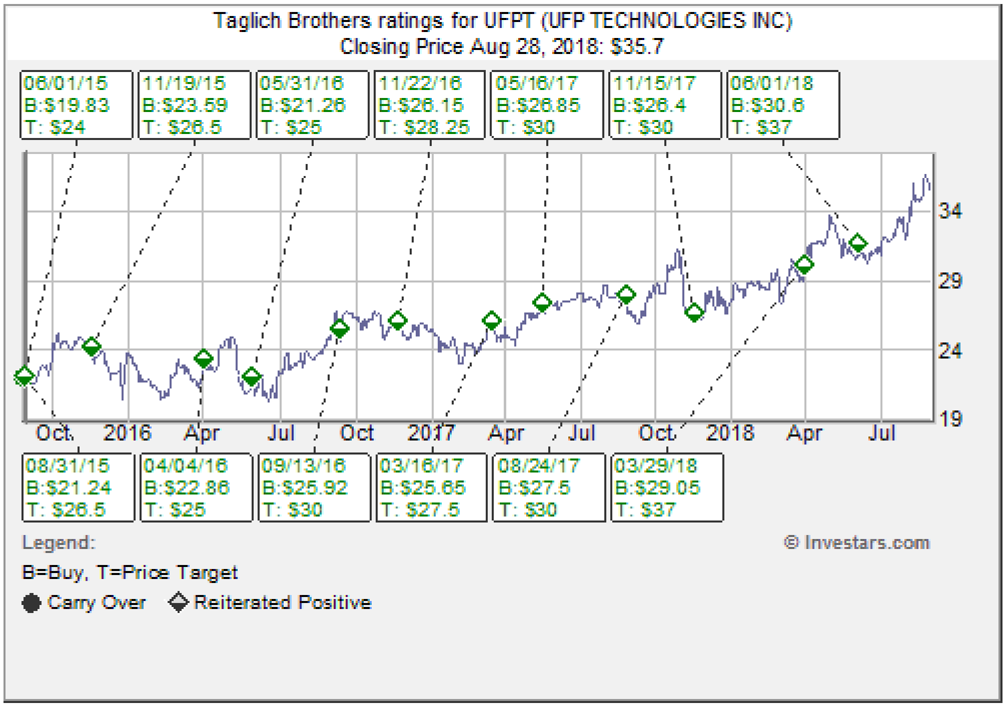
Source: Company filings and Taglich Brothers' estimates

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

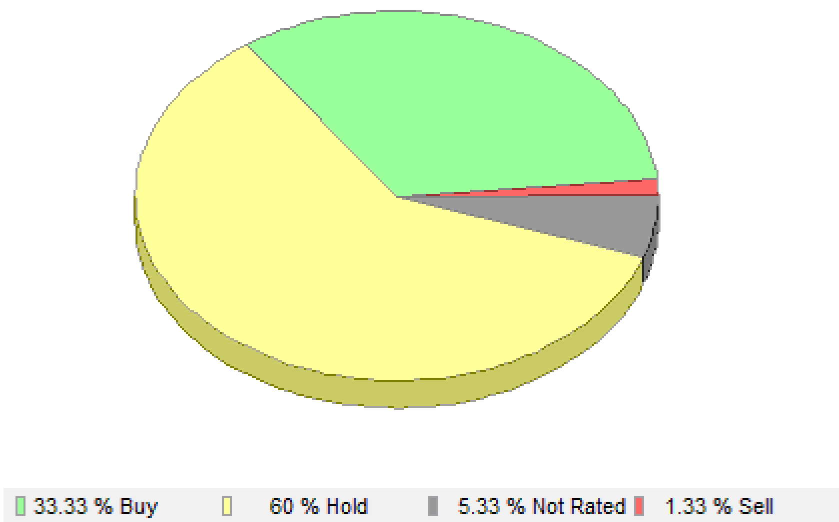
	2015A	2016A	2017A	6m18A	2018E	2019E
Net income	7,593	7,970	9,210	5,767	14,480	19,920
Depreciation & amortization	4,846	5,634	5,635	3,874	6,953	7,077
(Gain) loss on disposal of property, plant and equipment	27	2	7	(55)	(55)	-
Share-based compensation	1,069	1,056	1,068	691	1,400	1,400
Excess tax benefit on share-based compensation	(356)	(145)	-	-	-	-
Deferred income taxes	437	576	(1,019)	688	688	-
Cash earnings	13,616	15,093	14,901	10,965	23,466	28,397
Changes in assets and liabilities						
Receivables	(1,011)	(3,768)	(132)	(4,414)	(6,422)	(1,923)
Inventories	(1,309)	51	1,288	(1,451)	(3,382)	(738)
Prepaid expenses	(266)	(1,351)	446	(149)	(271)	-
Refundable income taxes	2,677	209	(210)	401	401	-
Other assets	325	(97)	(228)	(248)	(248)	-
Accounts payable	(1,379)	(683)	93	2,907	5,894	240
Accrued expenses and other	(163)	(361)	1,065	(1,578)	2,184	492
Deferred revenue	-	-	-	859	1,971	-
Retirement and other liabilities	29	213	246	155	155	-
(Increase) decrease in working capital	(1,097)	(5,787)	2,568	(3,518)	282	(1,930)
Net Cash Provided by Operations	**12,519**	**9,306**	**17,469**	**7,447**	**23,748**	**26,467**
Additions to property, plant and equipment	(15,742)	(7,206)	(10,382)	(2,991)	(6,000)	(6,000)
Cash paid for acquisitions (net)	-	-	-	(76,978)	(76,978)	-
Proceeds from sale of fixed assets	53	14	7	68	68	-
Net Cash Used in Investing	**(15,689)**	**(7,192)**	**(10,375)**	**(79,901)**	**(82,910)**	**(6,000)**
Proceeds from line of credit	-	-	-	36,000	36,000	-
Payments on line of credit	-	-	-	(15,000)	(16,429)	(6,714)
Proceeds from long-term borrowings	-	-	-	20,000	20,000	-
Payments on long-term borrowings	-	-	-	-	(5,000)	(5,000)
Repurchases of common stock	(587)	-	-	-	-	-
Tax benefit from exercise of non-qualified stock options	356	145	-	-	-	-
Proceeds from exercise of stock options	358	529	677	964	1,928	1,928
Payment of statutory withholdings for stock options exercised	(209)	(219)	(296)	(144)	(288)	(288)
Principal repayments of long-term debt	(996)	(1,014)	(856)	(1,429)	(10,000)	(10,000)
Net Cash Provided by (Used in) Financing	**(1,078)**	**(559)**	**(475)**	**40,391**	**26,211**	**(20,074)**
Net Change in Cash	**(4,248)**	**1,555**	**6,619**	**(32,063)**	**(32,951)**	**393**
Cash - Beginning of Period	**34,052**	**29,804**	**31,359**	**37,978**	**37,978**	**5,027**
Cash - End of Period	**29,804**	**31,359**	**37,978**	**5,915**	**5,027**	**5,420**

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	3	12
Hold		
Sell		
Not Rated	1	50

Important Disclosures

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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.