

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

September 1, 2020

UFPT \$41.21 — (NASDAQ CM)

	2018A	2019A	2020E	2021E
Revenues (millions)	\$190.5	\$198.4	\$184.1	\$204.0
Earnings per share (diluted)	\$1.93	\$2.63	\$1.64	\$2.62

52-Week range	\$52.59 – \$30.80	Fiscal year ends:	December
Shares outstanding as of 8/1/20	7.5 million	Revenue per share (TTM)	\$25.32
Approximate float	6.3 million	Price/Sales (TTM)	1.6X
Market capitalization	\$309 million	Price/Sales (2021)E	1.5X
Tangible book value/share	\$12.90	Price/Earnings (TTM)	17.6X
Price/tangible book	3.2X	Price/Earnings (2021)E	15.7X

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 increasing our twelve-month price target to \$55.00 per share from \$50.00 reflecting our increased EPS forecast and a strong balance sheet.

Although the COVID-19 pandemic did not materially impact UFPT's 1Q20 results, it did have a materially adverse effect on its 2Q20 results. We anticipate the adverse effect from the pandemic will continue to impact 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 the negative impact are increased orders from medical market customers. 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.

2Q20 sales (10Q released on 8/7/20) decreased 17% to \$42.6 million with net income of \$2.3 million or \$0.31 per share, down from \$4.6 million or \$0.62 per share in 2Q19.

For 2020, we project a decline in revenue of 7.2% to \$184.1 million and net income of \$12.4 million or \$1.64 per share. We previously projected revenue of \$185.7 million and net income of \$11.4 million or \$1.52 per share. Our forecast reflects 1H20 results and recent cost-cutting measures.

For 2021, we project a 10.8% increase in revenue to \$204 million (unchanged) and net income of \$19.8 million or \$2.62 per share. We previously projected net income of \$19 million or \$2.52 per share. Our forecast reflects a full year of savings from cost-cutting measures instituted in 2020.

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 \$55.00 per share from \$50.00 reflecting our increased EPS forecast and a strong balance sheet.

Although the COVID-19 pandemic did not materially impact UFPT's 1Q20 results, it did have a materially adverse effect on its 2Q20 results and we anticipate the adverse effect from the pandemic will continue to impact 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 the negative impact 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 21X (up from 20X to reflect a strong balance sheet with a projected cash position of nearly \$46 million in 2021) to our 2021 EPS projection of \$2.62 to obtain a year-ahead value of approximately \$55.00 per share.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2021 P/E	Projected EPS Growth to 2021
Atrion Corp	ATRI	668	1,270	35.3	NMF	NMF
Lantheus Holdings Inc	LNTH	13.41	913	44.4	13.6	86%
DMC Global Inc	BOOM	35.33	537	NMF	NMF	NMF
Surmodics Inc	SRDX	46.14	634	83.4	NMF	NMF
OraSure Technologies Inc	OSUR	14.41	920	NMF	36.6	NMF
Cutera Inc	CUTR	15.43	289	NMF	NMF	69%
Meridian Bioscience Inc	VIVO	15.87	689	15.6	15.6	5%
Lydall Inc	LDL	20.23	363	NMF	18.4	NMF
CECO Environmental Corp	CECE	8.49	303	17.7	13.3	21%
SeaSpine Holdings Corp	SPNE	12.8	367	NMF	NMF	38%
Accuray Inc	ARAY	2.29	200	88.1	95.4	NMF
Hurco Companies Inc	HURC	30.48	209	NMF	NMF	NMF
Graham Corp	GHM	12.36	130	NMF	36.4	NMF
Harvard Bioscience Inc	HBIO	3.53	142	NMF	15.4	59%
Peer Average				47.4	30.6	46%
Company						
UFP Technologies	UFPT	41.21	309	17.6	15.7	59%

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 June 2020, the International Monetary Fund (IMF) updated its global economic growth estimates to a decline of 4.9% for 2020 and growth of 5.4% for 2021, down from its April 2020 estimates calling for a decline of 3% for 2020 and growth of 5.8% for 2021. The revisions primarily reflect a more negative impact of the COVID-19 pandemic in 1H20 than originally anticipated and a more gradual recovery than previously forecast.

The IMF updated its economic growth estimate for the US to a decline of 8% for 2020 and growth of 4.5% for 2021. In April 2020, the IMF projected a decline in US growth of 5.9% for 2020 and growth of 4.7% for 2021.

The second estimate of US GDP growth (released on August 27, 2020) showed the US economy decreased at an annual rate of 31.7% in 2Q20, greater than the 5% decline reported in 1Q19. The 2Q20 US GDP estimate primarily reflects decreases in consumer spending, exports, inventory investment, business investment, and housing investment, partially offset by an increase 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, it did have a materially adverse effect on its 2Q20 results. We anticipate the adverse effect from the pandemic will continue to impact 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 the negative impact are increased orders from certain customers in the medical market. The company has also begun to produce medical face shields and associated components.

In response to the economic uncertainties resulting from the COVID-19 pandemic, the company has initiated cost-cutting measures, including restrictions on travel and direct and indirect labor cost reduction measures, including employee terminations. We anticipate the impact of these cost-cutting measures will occur primarily starting in 3Q20, but will only partially offset the adverse impact of the COVID-19 pandemic.

2020 Forecast

For 2020, we project a decline in revenue of 7.2% to \$184.1 million and net income of \$12.4 million or \$1.64 per share. We previously projected revenue of \$185.7 million and net income of \$11.4 million or \$1.52 per share. Our forecast reflects 1H20 results and 3Q20 cost-cutting measures.

We project gross margins decreasing to 24.9% 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 remain relatively flat at \$29.3 million as the company controls costs. SG&A margins should increase to 15.9% from 14.7% in 2019. We project a 33.9% decline in operating income to \$16.3 million with margins decreasing to 8.9% from 12.5%. Our tax rate forecast is 22.1%.

In 2020, we project \$25.7 million cash from operations on cash earnings of \$24 million and a \$1.7 million decrease in working capital primarily due to decreased receivables. We project a \$20.6 million increase in cash to \$24.3 million at the end of 2020 after \$5.5 million of capital expenditures.

2021 Forecast

For 2021, we project a 10.8% increase in revenue to \$204 million (unchanged) and net income of \$19.8 million or \$2.62 per share. We previously projected net income of \$19 million or \$2.52 per share. Our forecast reflects a full year of savings from cost-cutting measures instituted in 2020.

We project gross margins increasing to 27.8% from 24.9% projected for 2020 due primarily to increased manufacturing overhead coverage and continued growth in higher margin medical sales.

SG&A expenses should increase to \$30.3 million from our projected \$29.3 million in 2020 due primarily to increased compensation costs. SG&A margins should decrease to 14.9% from 15.9% in 2020. We project a 61.3% increase in operating income to \$26.3 million with margins increasing to 12.9% from 8.9%. Our tax rate forecast is 25%.

In 2021, we project \$26.8 million cash from operations on cash earnings of \$29.7 million and a \$2.9 million increase in working capital primarily due to an increase in receivables. We project a \$21.7 million increase in cash to \$46 million at the end of 2021 after \$5.5 million of capital expenditures.

2Q and 1H20 Financial Results

2Q20 - Sales decreased 17% to \$42.6 million with net income of \$2.3 million or \$0.31 per share, down from \$4.6 million or \$0.62 per share in 2Q19. We projected 2Q20 net sales of \$43.7 million and net income of \$1.5 million or \$0.20 per share.

The decline in sales was primarily attributable to the adverse impact on demand for the company's products as a result of the COVID-19 pandemic. Gross profit decreased 30.8% to \$9.9 million from \$14.4 million and gross margins decreased to 23.3% from 28% due to reduced manufacturing overhead coverage offset in part by manufacturing efficiencies. SG&A expenses decreased to \$6.7 million from \$7.8 million due primarily to decreases in compensation related reserves and reduced company-wide travel and entertainment expenses. Operating income decreased to \$3 million or 7% of sales from \$6.6 million or 12.8% of sales.

Non-operating expense was \$68,000 compared to \$392,000. Interest expense decreased to \$33,000 from \$194,000 while other expense was \$35,000 versus \$198,000 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 20.8%.

1H20 - Sales decreased 7.9% to \$90.9 million with net income of \$6.2 million or \$0.82 per share, down from \$8.3 million or \$1.11 per share.

The decline in sales was primarily attributable to the adverse impact on demand for the company's products as a result of the COVID-19 pandemic. Gross profit decreased 15.2% to \$22.8 million from \$26.9 million and gross margins decreased to 25% from 27.2% due to reduced manufacturing overhead coverage offset in part by manufacturing efficiencies. SG&A expenses decreased to \$14.4 million from \$15 million. Operating income decreased to \$8.1 million or 8.9% of sales from \$11.8 million or 12% of sales.

Non-operating expense was \$411,000 compared to \$862,000. Interest expense decreased to \$49,000 from \$425,000 while other expense was \$362,000 versus \$437,000 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 18.9%.

Liquidity

At June 30, 2020, the company had \$12.3 million cash, a current ratio of 3.9X, tangible equity of \$97 million or \$12.90 per share, and no debt.

1H20 cash provided by operations was \$10.7 million consisting \$12.5 million cash earnings and a \$1.7 million increase in working capital. The increase in working capital was due primarily to increases in inventories. Cash from operations covered capital expenditures of \$2.2 million, resulting in an \$8.5 million increase in cash to \$12.3 million at June 30, 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 June 30, 2020, the applicable interest rate was approximately 1.2% 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.

	Income Statement (in thousands \$)	
	6M20A	6M19A
Net sales	90,921	98,726
Cost of sales	68,148	71,859
Gross profit	22,773	26,867
Extraordinary items	286	-
SG&A	14,417	15,043
Operating income	8,070	11,824
Interest exp, other inc and exp	(411)	(862)
Income before taxes	7,659	10,962
Income tax	1,450	2,630
Net Income / (Loss)	6,209	8,332
EPS	0.82	1.11
Shares Outstanding	7,545	7,473
<u>Margin Analysis</u>		
Gross margin	25.0%	27.2%
SG&A	15.9%	15.2%
Operating margin	8.9%	12.0%
Tax rate	18.9%	24.0%
<u>Year / Year Growth</u>		
Total Revenues	(7.9)%	
Net Income	(25.5)%	
EPS	(26.2)%	
Source: Company filings		

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 6.3 million in the float, liquidity issues must be considered. Average daily volume has been approximately 30,000 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>6/20A</u>	<u>2020E</u>	<u>2021E</u>
Cash and cash equivalents	37,978	3,238	3,743	12,266	24,296	45,961
Receivables	21,381	28,321	28,648	27,271	26,595	29,467
Inventories	12,863	19,576	18,276	20,959	17,280	18,421
Prepaid expenses	1,835	2,206	2,304	3,419	3,419	3,419
Refundable income taxes	<u>1,017</u>	<u>2,285</u>	<u>279</u>	-	-	-
Total current assets	75,074	55,626	53,250	63,915	71,591	97,267
Net property, plant and equipment	53,652	57,667	56,739	55,158	55,200	54,000
Goodwill	7,322	51,838	51,838	51,838	51,838	51,838
Intangible assets	-	22,232	20,975	20,347	19,718	18,461
Other assets	<u>2,159</u>	<u>2,235</u>	<u>5,956</u>	<u>5,961</u>	<u>5,961</u>	<u>5,961</u>
Total assets	<u>138,207</u>	<u>189,598</u>	<u>188,758</u>	<u>197,219</u>	<u>204,308</u>	<u>227,527</u>
Current portion of long-term debt	-	2,857	-	-	-	-
Deferred revenue	297	2,507	2,574	2,648	2,648	2,648
Accounts payable	4,180	6,836	4,577	5,415	4,224	4,503
Finance lease liabilities	-	-	-	15	15	15
Operating lease liabilities	-	-	674	1,170	1,170	1,170
Income taxes payable	-	-	-	204	204	204
Accrued expenses	<u>5,466</u>	<u>8,458</u>	<u>8,483</u>	<u>7,113</u>	<u>7,873</u>	<u>8,723</u>
Total current liabilities	9,943	20,658	16,308	16,565	16,134	17,263
Long-term debt	-	22,286	-	-	-	-
Deferred income taxes	2,440	4,129	4,921	5,652	5,652	5,652
Finance lease liabilities	-	-	-	93	93	93
Operating lease liabilities	-	-	2,416	1,428	1,428	1,428
Other liabilities	<u>2,112</u>	<u>2,068</u>	<u>3,122</u>	<u>4,269</u>	<u>4,269</u>	<u>4,269</u>
Total liabilities	14,495	49,141	26,767	28,007	27,576	28,705
Total stockholders' equity	<u>123,712</u>	<u>140,457</u>	<u>161,991</u>	<u>169,212</u>	<u>176,732</u>	<u>198,822</u>
Total liabilities & stockholders' equity	<u>138,207</u>	<u>189,598</u>	<u>188,758</u>	<u>197,219</u>	<u>204,308</u>	<u>227,527</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	184,121	204,000
Cost of sales	<u>112,355</u>	<u>142,147</u>	<u>144,422</u>	<u>138,242</u>	<u>147,365</u>
Gross profit	35,487	48,308	53,959	45,879	56,635
Extraordinary items	(51)	938	-	286	-
SG&A	<u>23,845</u>	<u>27,758</u>	<u>29,251</u>	<u>29,267</u>	<u>30,300</u>
Operating income	11,693	19,612	24,708	16,326	26,335
Non-operating (expenses) income	<u>166</u>	<u>(1,209)</u>	<u>(1,062)</u>	<u>(411)</u>	<u>-</u>
Income before taxes	11,859	18,403	23,646	15,915	26,335
Income tax (benefit)	<u>2,649</u>	<u>4,092</u>	<u>3,896</u>	<u>3,513</u>	<u>6,584</u>
Net Income / (Loss)	<u>9,210</u>	<u>14,311</u>	<u>19,750</u>	<u>12,402</u>	<u>19,751</u>
EPS	<u>1.26</u>	<u>1.93</u>	<u>2.63</u>	<u>1.64</u>	<u>2.62</u>
Shares Outstanding	7,337	7,430	7,516	7,540	7,545
<u>Margin Analysis</u>					
Gross margin	24.0%	25.4%	27.2%	24.9%	27.8%
SG&A	16.1%	14.6%	14.7%	15.9%	14.9%
Operating margin	7.9%	10.3%	12.5%	8.9%	12.9%
Pretax margin	8.0%	9.7%	11.9%	8.6%	12.9%
Tax rate	22.3%	22.2%	16.5%	22.1%	25.0%
<u>Year / Year Growth</u>					
Total Revenues	1.2%	28.8%	4.2%	(7.2)%	10.8%
Net Income	15.6%	55.4%	38.0%	(37.2)%	59.3%
EPS	14.6%	53.4%	36.4%	(37.4)%	59.2%

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	6/20A	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	42,644	45,000	48,200	184,121	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	32,695	34,425	35,668	138,242	36,135	36,613	37,080	37,538	147,365
Gross profit	12,497	14,371	13,321	13,771	53,959	12,823	9,949	10,575	12,532	45,879	13,365	13,888	14,420	14,963	56,635
Extraordinary items	-	-	-	-	-	(4)	290	-	-	286	-	-	-	-	-
SG&A	7,244	7,799	7,183	7,025	29,251	7,752	6,665	7,400	7,450	29,267	7,500	7,550	7,600	7,650	30,300
Operating income	5,253	6,572	6,138	6,746	24,708	5,075	2,994	3,175	5,082	16,326	5,865	6,338	6,820	7,312	26,335
Non-operating (expenses) income	(470)	(392)	(189)	(11)	(1,062)	(343)	(68)	-	-	(411)	-	-	-	-	-
Income before taxes	4,783	6,180	5,949	6,735	23,646	4,732	2,926	3,175	5,082	15,915	5,865	6,338	6,820	7,312	26,335
Income tax (benefit)	1,049	1,582	308	958	3,896	841	608	794	1,271	3,513	1,466	1,584	1,705	1,828	6,584
Net Income / (Loss)	3,734	4,598	5,641	5,777	19,750	3,891	2,318	2,381	3,812	12,402	4,399	4,753	5,115	5,484	19,751
EPS	0.50	0.62	0.75	0.77	2.63	0.52	0.31	0.32	0.51	1.64	0.58	0.63	0.68	0.73	2.62
Shares Outstanding	7,466	7,467	7,493	7,545	7,516	7,538	7,532	7,545	7,545	7,540	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%	23.3%	23.5%	26.0%	24.9%	27.0%	27.5%	28.0%	28.5%	27.8%
SG&A	15.3%	15.2%	14.5%	14.0%	14.7%	16.1%	15.6%	16.4%	15.5%	15.9%	15.2%	15.0%	14.8%	14.6%	14.9%
Operating margin	11.1%	12.8%	12.4%	13.4%	12.5%	10.5%	7.0%	7.1%	10.5%	8.9%	11.8%	12.5%	13.2%	13.9%	12.9%
Pretax margin	10.1%	12.0%	12.0%	13.4%	11.9%	9.8%	6.9%	7.1%	10.5%	8.6%	11.8%	12.5%	13.2%	13.9%	12.9%
Tax rate	21.9%	25.6%	5.2%	14.2%	16.5%	17.8%	20.8%	25.0%	25.0%	22.1%	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%	(17.0)%	(8.9)%	(4.1)%	(7.2)%	2.5%	18.4%	14.4%	8.9%	10.8%
Net Income	110.1%	15.2%	36.5%	31.0%	38.0%	4.2%	(49.6)%	(57.8)%	(34.0)%	(37.2)%	13.0%	105.1%	114.8%	43.9%	59.3%
EPS	107.7%	14.4%	35.4%	29.6%	36.4%	3.2%	(50.0)%	(58.1)%	(34.0)%	(37.4)%	12.9%	104.7%	114.8%	43.9%	59.2%

Source: Company filings and Taglich Brothers' estimates

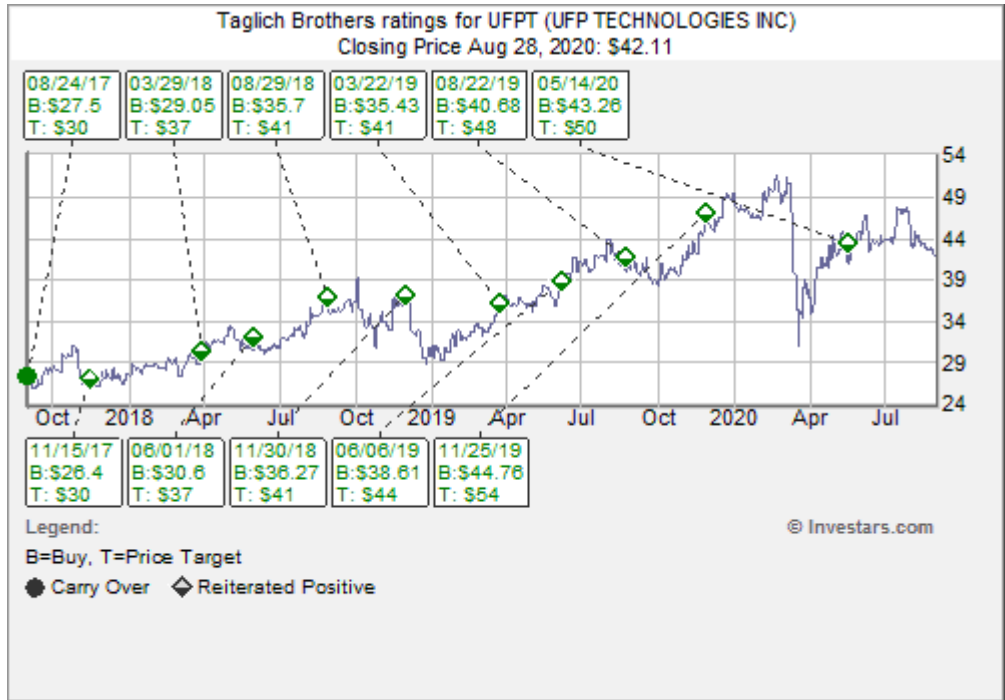
UFP Technologies, Inc.

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

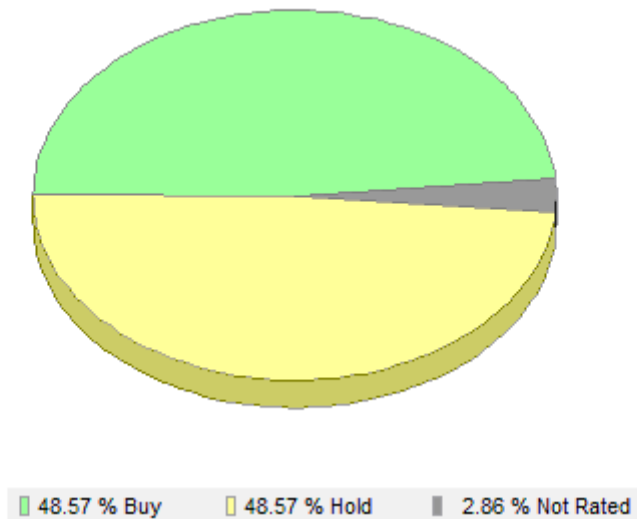
	2017A	2018A	2019A	6M20A	2020E	2021E
Net income	9,210	14,311	19,750	6,209	12,402	19,751
Depreciation & amortization	5,635	7,831	8,172	4,150	8,610	7,957
(Gain) loss on disposal of property, plant and equipment	7	(47)	-	286	286	-
Share-based compensation	1,068	1,212	1,591	1,098	2,000	2,000
Deferred income taxes	(1,019)	1,881	792	731	731	-
Cash earnings	14,901	25,188	30,305	12,474	24,029	29,708
<i>Changes in assets and liabilities</i>						
Receivables	(132)	(2,556)	(327)	1,377	2,053	(2,871)
Inventories	1,288	(2,295)	1,300	(2,683)	996	(1,140)
Prepaid expenses	446	(249)	(98)	(1,115)	(1,115)	-
Refundable income taxes	(210)	(1,268)	2,006	483	483	-
Other assets	(228)	(76)	110	(5)	(5)	-
Accounts payable	93	1,113	(2,472)	735	(980)	279
Accrued expenses and other	1,065	1,472	25	(1,370)	(610)	850
Deferred revenue	-	35	67	74	74	-
Other liabilities	246	(44)	313	766	766	-
(Increase) decrease in working capital	2,568	(3,868)	924	(1,738)	1,662	(2,883)
Net Cash Provided by Operations	17,469	21,320	31,229	10,736	25,690	26,825
Additions to property, plant and equipment	(10,382)	(5,428)	(5,778)	(2,151)	(5,500)	(5,500)
Cash paid for acquisitions (net)	-	(76,978)	-	-	-	-
Proceeds from sale of fixed assets	7	77	4	27	27	-
Net Cash Used in Investing	(10,375)	(82,329)	(5,774)	(2,124)	(5,473)	(5,500)
Proceeds from line of credit	-	36,000	-	5,500	5,500	-
Payments on line of credit	-	(28,000)	(8,000)	(5,500)	(5,500)	-
Proceeds from long-term borrowings	-	20,000	-	-	-	-
Principal payments on finance lease obligation	-	-	-	(3)	(3)	-
Proceeds from exercise of stock options	677	1,270	705	475	900	900
Payment of statutory withholdings for stock options exercised	(296)	(144)	(512)	(561)	(561)	(561)
Principal repayments of long-term debt	(856)	(2,857)	(17,143)	-	-	-
Net Cash Provided by (Used in) Financing	(475)	26,269	(24,950)	(89)	336	339
Net Change in Cash	6,619	(34,740)	505	8,523	20,553	21,664
Cash - Beginning of Period	31,359	37,978	3,238	3,743	3,743	24,296
Cash - End of Period	37,978	3,238	3,743	12,266	24,296	45,961

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	11
Hold		
Sell		
Not Rated		

Important Disclosures

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Analyst Certification

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

Public Companies Mentioned in this Report

Accuray Inc. (NASDAQ: ARAY)
Atrion Corp. (NASDAQ: ATRI)
CECO Environmental Corp. (NASDAQ: CECE)
Cutera Inc. (NASDAQ: CUTR)
DMC Global Inc. (NASDAQ: BOOM)
Graham Corp. (NYSE: GHM)
Harvard Bioscience Inc. (NASDAQ: HBIO)
Hurco Companies Inc. (NASDAQ: HURC)
Lantheus Holdings Inc. (NASDAQ: LNTH)
Lydall Inc. (NYSE: LDL)
Meridian Bioscience Inc. (NASDAQ: VIVO)
OraSure Technologies Inc. (NASDAQ: OSUR)
RTI Surgical Holdings Inc. (NASDAQ: RTIX)
SeaSpine Holdings Corp. (NASDAQ: SPNE)
Surmodics Inc. (NASDAQ: SRDX)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

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.