

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

November 15, 2017

UFPT \$26.40 — (NASDAQ CM)

	2015A	2016A	2017E	2018E
Revenues (millions)	\$138.9	\$146.1	\$146.6	\$161.2
Earnings per share (diluted)	\$1.05	\$1.10	\$1.12	\$1.76

52-Week range	\$31.50 – \$22.95	Fiscal year ends:	December
Shares outstanding as of 11/6/17	7.3 million	Revenue per share (TTM)	\$20.10
Approximate float	6.0 million	Price/Sales (TTM)	1.3X
Market capitalization	\$193 million	Price/Sales (2018)E	1.2X
Tangible book value/share	\$15.61	Price/Earnings (TTM)	24.2X
Price/tangible book	1.7X	Price/Earnings (2018)E	15.0X

UFP Technologies, headquartered in Georgetown, 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 and maintaining twelve-month price target of \$30.00 per share.

Continued growth in medical market sales and a large new molded fiber program that is scheduled to start production in 4Q17 should help drive strong growth in UFPT's sales and earnings in 2018.

3Q17 medical market sales were adversely impacted as two large customers added second suppliers. While 3Q17 orders from medical device customers decreased temporarily due to hurricane related disruptions, we project double digit growth in 2018.

The \$1 million in annual cost savings from plant consolidations that were completed in 1H17, along with strategic price increases, should drive gross margins from 23.7% in 2016, to 24.6% in 2017 and 28% in 2018.

3Q17 revenue (released on 11/9/17) decreased 4% to \$35.7 million with EPS of \$0.23, down from \$0.37. We projected sales of \$38.7 million and EPS of \$0.36.

For 2017, we project a \$500,000 increase in revenue to \$146.6 million and EPS of \$1.12. We previously projected revenue of \$153 million and EPS of \$1.41. Our reduced forecasts reflect 3Q17 results and customer business disruptions that resulted from two 2017 hurricanes.

For 2018, we project revenue growth of 9.9% to \$161.2 million and EPS of \$1.76, up from our prior revenue forecast of \$160 million and EPS projection of \$1.75 due primarily to a full year of sales from a large molded fiber program that is scheduled to start production in 4Q17.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and maintaining our twelve-month price target of \$30.00 per share.

Shares of UFP Technologies continues to trade at a forward discount to its direct competitors (see chart below) due arguably to declining sales and earnings in 3Q17. Medical market sales were adversely impacted in 3Q17 as two large customers added second suppliers and certain customers ordered less due to hurricanes disrupting their business. While orders from medical device customers decreased temporarily due to hurricane related disruptions, we project double digit growth in 2018.

However, with the storm related disruptions that occurred in 3Q17 behind them, and a large molded fiber program that is scheduled to start production in 4Q17, we believe that strong sales and earnings growth should resume in 2018.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2018 P/E	Average Projected EPS Growth to 2018
Packaging Corp of America	PKG	112.71	10,634	19.8	16.7	13%
Sealed Air	SEE	45.1	10,373	21.9	18.4	36%
Graphic Packaging	GPK	15.61	4,835	25.6	18.6	27%
Bemis	BMS	43.96	3,992	18.1	16.5	13%
Greif	GEF	51.7	2,630	19.7	15.3	18%
Peer Average				21.0	17.1	21%
Company						
UFP Technologies	UFPT	26.4	193	24.2	15.0	57%

Source: Taglich Brothers estimates, Thomson Reuters

UFP Technologies currently trades at a multiple of 15X our 2018 EPS projection while its direct competitors trade at a 2018 multiple of 17.1X. We believe UFPT's P/E multiple will expand as strong sales and earnings growth resumes in 2018. We applied a multiple of 17X (unchanged) to our 2018 EPS projection of \$1.76 to obtain a year-ahead value of approximately \$30.00 per share.

It is important to note that with the company's strong balance sheet and healthy cash position (\$37.2 million at 9/30/17 should increase to over \$51 million by the end of 2018), the potential for strategic acquisitions remains high.

Business

UFP Technologies, headquartered in Georgetown, 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.

Almost 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 7% to 16% 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

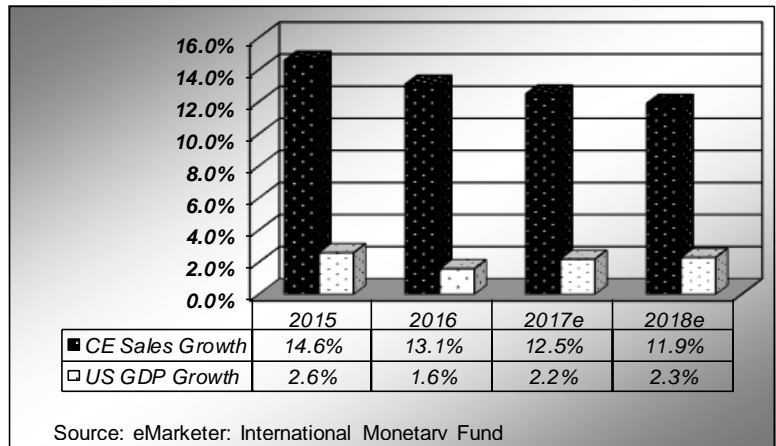
Industry Outlook

In March 2017, 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. In October 2017, IBISWorld forecasted medical device industry average annual sales growth of approximately 2.8% to \$50.6 billion in 2023 from 2018.

In July 2017, IBISWorld projected sales in the US car and automobile industry to be flat through 2022. IBISWorld projects demand for new vehicles to slow as many consumers have already released pent-up demand.

UFP Technologies makes products used in the packaging of consumer electronics, sales of which are economically sensitive. The chart at right shows how US consumer electronics sales were affected by changes in the economy over the past two years with projections to 2018.



Source: eMarketer; International Monetary Fund

While the rate of consumer electronics sales growth is projected to continue to trend downward over the next two years, growth still remains robust. eMarketer forecasts Web sales of computers and consumer electronics to grow at an average annual rate of approximately 12.2% to \$108.4 billion in 2018.

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 requests \$639.1 billion for US defense spending in 2018, \$52.4 billion higher than 2017 and \$58.8 billion higher than 2016. This potential 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, stable GDP growth should support our revenue forecast to 2018.

In October 2017, the IMF raised its economic growth estimate for the US to 2.2% in 2017 and 2.3% in 2018, up from its earlier (July 2017) growth forecast of 2.1% for both years. The upward revision reflects strong, broad based US economic activity in 1H17.

The advance estimate of US GDP growth (released on October 27, 2017) showed the US economy grew at an annual rate of 3% in 3Q17, down from 3.1% growth in 2Q17. The 3Q17 US GDP growth estimate primarily reflects increases in consumer spending, inventory investment, business investment, and exports. Partly offsetting these contributions to GDP growth was a decrease in housing investment.

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	\$4.3B (6/17)	18.3%
Packaging Corp. of America	\$6.1B (6/17)	21.1%
Greif	\$3.5B (7/17)	19.3%
Bemis Company	\$4.0B (6/17)	21.5%
Sealed Air Corp.	\$6.8B (6/17)	37.0%
UFP Technologies	\$148.7M (6/17)	23.3%

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

In 2015, the company ceased operations at its Raritan, New Jersey plant and consolidated operations at its Newburyport, Massachusetts, facility and other UFPT facilities. UFPT also relocated all operations in its Haverhill, Massachusetts, and Byfield, Massachusetts facilities to its Newburyport, Massachusetts, facility in 2015.

The company completed the relocation of certain operations in its Georgetown, Massachusetts facility into its Newburyport, Massachusetts facility in 2Q17. 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.

2017 Forecast

For 2017, we project a \$500,000 increase in revenue to \$146.6 million and net income of \$8.2 million or \$1.12 per share. Our prior revenue forecast was \$153 million with net income of \$10.3 million or \$1.41 per share. Our reduced forecasts reflect 3Q17 results that included orders from medical device customers decreasing temporarily due to hurricane related disruptions.

We project gross margins increasing to 24.6% from 23.7% as higher margin medical sales make up a greater percentage of total sales. Our gross margin projections are supported by strategic price increases afforded by a five-year deal with Zotefoams granting UFPT exclusive access to certain medical grade foams.

We project \$23.8 million in SG&A expenses, down from \$24.1 million in 2016 due primarily to lower consulting and recruiting costs. SG&A margins should decrease to 16.3% from 16.5%. We project operating income of \$12.2 million, flat with 2016, and operating margins decreasing to 8.3% from 8.4%. Taxes are estimated at rate of 33.7%.

In 2017, we project \$15.4 million cash from operations primarily from cash earnings. Cash from operations should cover capital expenditures and repayment of long-term debt, increasing cash by \$7.6 million to \$39 million at the end of 2017.

2018 Forecast

For 2018, we project revenue growth of 9.9% to \$161.2 million and net income of \$12.9 million or \$1.76 per share, an increase from our prior revenue forecast of \$160 million and net income projection of \$12.8 million or \$1.75 per share. Our higher expectations reflect a full year of sales from a large molded fiber program that is scheduled to start production in 4Q17. This new program should help to offset reduced sales to the automotive market stemming from slowing automotive production and the end of a 13-year automotive door panel program in 4Q17.

With consolidation at an end and continued growth in high margin sales to the medical market, we project gross margins increasing to 28% from 24.6% in 2017. SG&A expenses should increase to \$25.5 million from \$23.8 million due primarily to increased compensation costs. SG&A margins should decrease to 15.8% from our 2017 forecast of 16.3%. We project operating income growth of 61.1% to \$19.7 million with margins increasing to 12.2% from 8.3%. Taxes are estimated at a rate of 35%.

In 2018, we project \$18.6 million cash from operations from cash earnings of \$19.7 million and a \$1.2 million increase in working capital primarily due to increased receivables. Cash from operations should cover capital expenditures, increasing cash by \$12.1 million to \$51.1 million at the end of 2018.

3Q and Nine-month 2017 Financial Results

3Q17 - Sales decreased 4% to \$35.7 million with net income of \$1.7 million or \$0.23 per share, down from \$2.7 million or \$0.37 per share. We projected sales of \$38.7 million and net income of \$2.7 million or \$0.36 per share.

The sales reduction from the year ago period was primarily due to decreases in sales to customers in the automotive and electronics markets of approximately 25.5% and 9.2%, respectively. These decreases were partially offset by increases in sales to customers in the aerospace and defense and consumer markets of approximately 6.6% and 6.3%, respectively. Sales to customers in the medical market were up 1% compared to 11% growth in 1H17. The slowdown reflects two large customers adding second suppliers and certain customers ordering less due to hurricanes disrupting their business.

The decline in sales to customers in the automotive market was primarily due to soft demand for interior trim components in certain legacy programs. The company has been notified that the remaining portion of its southeast automotive door panel program for Mercedes Benz, which began in 2004, will end with modest sales anticipated into the first quarter of 2018. The decline in sales to customers in the electronics market was primarily due to reduced demand for protective packaging. The increase in sales to customers in the aerospace and defense market was primarily due to increased demand for components from government contractors. The increase in sales to customers in the consumer market was primarily due to higher demand for molded fiber protective packaging.

Gross margins decreased to 23% from 22.7% due primarily to fixed overhead costs measured against reduced sales. SG&A expenses decreased to \$5.7 million from \$6 million due primarily to reductions in payroll. Operating income decreased to \$2.5 million from \$4.1 million in 3Q16. Operating margins were 7% compared to 11% in the year ago period. The company had an effective income tax rate of 33.6%.

Nine-month 2017 - Sales increased 1% to \$110.6 million with net income of \$6.5 million or \$0.89 per share, flat with the same period in 2016.

Growth reflects an approximate 7.9% increase in sales to customers in the medical market, partially offset by decreases in sales to customers in the automotive and industrial markets of approximately 12% and 9.6% respectively.

Gross margins increased to 26% from 24.1% due primarily to improvements in manufacturing efficiencies and strategic price increases. SG&A expenses decreased to \$18.1 million from \$18.4 million due primarily to reduced consulting and recruiting expenses. Operating income decreased to \$9.6 million from \$10 million on operating margins of 8.7% and 9.1%, respectively. The company had an effective income tax rate of 33.3%.

Liquidity

The company has a strong balance sheet. At September 30, 2017, the company had total debt of \$84,000, tangible equity of \$113.5 million, and cash (approximately \$5.12 per share) exceeds all indebtedness and liabilities. UFPT's debt/equity ratio is less than 0.1 versus 1.9 for the packaging and containers industry.

	Income Statement (in thousands \$)	
	9m17A	9m16A
Net sales	110,623	109,626
Cost of sales	82,973	83,161
Gross profit	27,650	26,465
Extraordinary items	(55)	(1,915)
SG&A	18,070	18,402
Operating income	9,635	9,978
Interest exp, other inc and exp	108	51
Income before taxes	9,743	10,029
Income tax	3,248	3,550
Net Income / (Loss)	6,495	6,479
EPS	0.89	0.89
Shares Outstanding	7,326	7,265
<u>Margin Analysis</u>		
Gross margin	25.0%	24.1%
SG&A	16.3%	16.8%
Operating margin	8.7%	9.1%
Tax rate	33.3%	35.4%
<u>Year / Year Growth</u>		
Total Revenues	0.9%	
Net Income	0.2%	
EPS	(0.6)%	
Source: Company filings		

Cash from operations of \$13 million for the nine-month period consisted of \$11.8 million cash earnings and a \$1.2 million decrease in working capital. The decrease in working capital was primarily due to lower inventories. Cash provided by operations covered \$6.9 million of capital expenditures and a \$772,000 repayment of debt resulting in a \$5.9 million increase in cash to \$37.2 million as of September 30, 2017.

UFPT has a \$40 million revolving credit facility with Bank of America with no borrowings as of September 30, 2017. The credit facility bears interest at LIBOR plus 1.0% to 1.5%, or the bank's prime rate less a margin that ranges from 0.25% to zero. In both cases the applicable margin is dependent upon company performance. The company's revolving credit facility matures November 30, 2018. Under the credit facility, the company is subject

to a minimum fixed-charge coverage financial covenant as well as a maximum total funded debt to EBITDA financial covenant which the company was in compliance with at September 30, 2017.

UFPT has a \$5 million, 1.83% fixed rate loan agreement to finance the purchase of two molded fiber machines. The outstanding balance was \$84,000 as of September 30, 2017. The loan is secured by the related molded fiber machines.

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 28% of total revenues in 2016. 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 7.3 million shares outstanding and 6 million in the float, liquidity issues must be considered. Average daily volume has been approximately 22,000 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>2014A</u>	<u>2015A</u>	<u>2016A</u>	<u>9/17A</u>	<u>2017E</u>	<u>2018E</u>
Cash and cash equivalents	34,052	29,804	31,359	37,246	39,004	51,096
Receivables	16,470	17,481	21,249	22,044	21,320	23,440
Inventories	12,893	14,202	14,151	13,136	14,042	14,730
Prepaid expenses	664	930	2,281	2,234	2,234	2,234
Refundable income taxes	3,192	1,186	807	979	979	-
Deferred income taxes	-	-	-	-	-	-
Total current assets	67,271	63,603	69,847	75,639	77,579	91,500
Net property, plant and equipment	34,843	46,555	48,516	51,982	50,469	51,770
Goodwill	7,322	7,322	7,322	7,322	7,322	7,322
Intangible assets	953	636	318	79	-	-
Other assets	2,159	1,834	1,931	2,069	2,069	2,069
Total assets	112,548	119,950	127,934	137,091	137,439	152,661
Current portion of long-term debt	993	1,011	856	84	84	84
Accounts payable	5,398	4,598	4,002	4,958	3,971	4,166
Accrued expenses	5,222	5,374	4,698	5,356	4,714	5,182
Total current liabilities	11,613	10,983	9,556	10,398	8,769	9,432
Long-term debt	1,873	859	-	-	-	-
Deferred income taxes	2,446	2,883	3,459	3,713	3,713	3,713
Other liabilities	1,624	1,653	1,866	2,067	2,067	2,067
Total liabilities	17,556	16,378	14,881	16,178	14,549	15,212
Total stockholders' equity	94,992	103,572	113,053	120,913	122,890	137,449
Total liabilities & stockholders' equity	112,548	119,950	127,934	137,091	137,439	152,661

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements
(in thousands \$)

	<u>2014A</u>	<u>2015A</u>	<u>2016A</u>	<u>2017E</u>	<u>2018E</u>
Net sales	139,307	138,850	146,132	146,623	161,200
Cost of sales	<u>102,427</u>	<u>101,397</u>	<u>111,482</u>	<u>110,621</u>	<u>116,043</u>
Gross profit	36,880	37,453	34,650	36,002	45,157
Extraordinary items	1,472	1,731	(1,692)	(55)	-
SG&A	<u>23,847</u>	<u>24,009</u>	<u>24,105</u>	<u>23,830</u>	<u>25,460</u>
Operating income	11,561	11,713	12,237	12,227	19,697
Non-operating (expenses) income	<u>204</u>	<u>27</u>	<u>80</u>	<u>159</u>	<u>204</u>
Income before taxes	11,765	11,740	12,317	12,386	19,901
Income tax	<u>4,206</u>	<u>4,147</u>	<u>4,347</u>	<u>4,172</u>	<u>6,965</u>
Net Income / (Loss)	<u>7,559</u>	<u>7,593</u>	<u>7,970</u>	<u>8,214</u>	<u>12,936</u>
EPS	<u>1.05</u>	<u>1.05</u>	<u>1.10</u>	<u>1.12</u>	<u>1.76</u>
Shares Outstanding	7,175	7,219	7,275	7,332	7,353
<u>Margin Analysis</u>					
Gross margin	26.5%	27.0%	23.7%	24.6%	28.0%
SG&A	17.1%	17.3%	16.5%	16.3%	15.8%
Operating margin	8.3%	8.4%	8.4%	8.3%	12.2%
Pretax margin	8.4%	8.5%	8.4%	8.4%	12.3%
Tax rate	35.8%	35.3%	35.3%	33.7%	35.0%
<u>Year / Year Growth</u>					
Total Revenues	0.1%	(0.3)%	5.2%	0.3%	9.9%
Net Income	(33.0)%	0.4%	5.0%	3.1%	57.5%
EPS	(33.6)%	(0.2)%	4.2%	2.3%	57.0%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Quarterly Income Statements 2016A - 2018E
(in thousands \$)

	<u>3/16A</u>	<u>6/16A</u>	<u>9/16A</u>	<u>12/16A</u>	<u>2016A</u>	<u>3/17A</u>	<u>6/17A</u>	<u>9/17A</u>	<u>12/17E</u>	<u>2017E</u>	<u>3/18E</u>	<u>6/18E</u>	<u>9/18E</u>	<u>12/18E</u>	<u>2018E</u>
Net sales	34,503	37,902	37,220	36,505	146,132	37,053	37,886	35,684	36,000	146,623	38,500	39,700	40,900	42,100	161,200
Cost of sales	<u>26,776</u>	<u>27,607</u>	<u>28,768</u>	<u>28,321</u>	<u>111,482</u>	<u>27,537</u>	<u>27,945</u>	<u>27,491</u>	<u>27,648</u>	<u>110,621</u>	<u>27,913</u>	<u>28,683</u>	<u>29,346</u>	<u>30,102</u>	<u>116,043</u>
Gross profit	7,727	10,295	8,452	8,184	34,650	9,516	9,941	8,193	8,352	36,002	10,588	11,017	11,554	11,999	45,157
Extraordinary items	119	(368)	(1,656)	222	(1,692)	(5)	(50)	-	-	(55)	-	-	-	-	-
SG&A	<u>5,904</u>	<u>6,470</u>	<u>6,027</u>	<u>5,704</u>	<u>24,105</u>	<u>6,316</u>	<u>6,061</u>	<u>5,693</u>	<u>5,760</u>	<u>23,830</u>	<u>6,080</u>	<u>6,270</u>	<u>6,460</u>	<u>6,650</u>	<u>25,460</u>
Operating income	1,704	4,193	4,081	2,258	12,237	3,205	3,930	2,500	2,592	12,227	4,508	4,747	5,094	5,349	19,697
Non-operating (expenses) income	<u>11</u>	<u>15</u>	<u>25</u>	<u>29</u>	<u>80</u>	<u>28</u>	<u>29</u>	<u>51</u>	<u>51</u>	<u>159</u>	<u>51</u>	<u>51</u>	<u>51</u>	<u>51</u>	<u>204</u>
Income before taxes	1,715	4,208	4,106	2,287	12,317	3,233	3,959	2,551	2,643	12,386	4,559	4,798	5,145	5,400	19,901
Income tax	<u>640</u>	<u>1,473</u>	<u>1,437</u>	<u>796</u>	<u>4,347</u>	<u>1,062</u>	<u>1,329</u>	<u>856</u>	<u>925</u>	<u>4,172</u>	<u>1,595</u>	<u>1,679</u>	<u>1,801</u>	<u>1,890</u>	<u>6,965</u>
Net Income / (Loss)	<u>1,075</u>	<u>2,735</u>	<u>2,669</u>	<u>1,491</u>	<u>7,970</u>	<u>2,171</u>	<u>2,630</u>	<u>1,695</u>	<u>1,718</u>	<u>8,214</u>	<u>2,963</u>	<u>3,119</u>	<u>3,344</u>	<u>3,510</u>	<u>12,936</u>
EPS	<u>0.15</u>	<u>0.38</u>	<u>0.37</u>	<u>0.20</u>	<u>1.10</u>	<u>0.30</u>	<u>0.36</u>	<u>0.23</u>	<u>0.23</u>	<u>1.12</u>	<u>0.40</u>	<u>0.42</u>	<u>0.45</u>	<u>0.48</u>	<u>1.76</u>
Shares Outstanding	7,255	7,271	7,312	7,300	7,275	7,297	7,323	7,353	7,353	7,332	7,353	7,353	7,353	7,353	7,353
<u>Margin Analysis</u>															
Gross margin	22.4%	27.2%	22.7%	22.4%	23.7%	25.7%	26.2%	23.0%	23.2%	24.6%	27.5%	27.8%	28.3%	28.5%	28.0%
SG&A	17.1%	17.1%	16.2%	15.6%	16.5%	17.0%	16.0%	16.0%	16.0%	16.3%	15.8%	15.8%	15.8%	15.8%	15.8%
Operating margin	4.9%	11.1%	11.0%	6.2%	8.4%	8.6%	10.4%	7.0%	7.2%	8.3%	11.7%	12.0%	12.5%	12.7%	12.2%
Pretax margin	5.0%	11.1%	11.0%	6.3%	8.4%	8.7%	10.4%	7.1%	7.3%	8.4%	11.8%	12.1%	12.6%	12.8%	12.3%
Tax rate	37.3%	35.0%	35.0%	34.8%	35.3%	32.8%	33.6%	33.6%	35.0%	33.7%	35.0%	35.0%	35.0%	35.0%	35.0%
<u>Year / Year Growth</u>															
Total Revenues	1.5%	3.8%	8.1%	7.6%	5.2%	7.4%	0.0%	(4.1)%	(1.4)%	0.3%	3.9%	4.8%	14.6%	16.9%	9.9%
Net Income	(35.0)%	20.4%	34.0%	(11.0)%	5.0%	102.0%	(3.8)%	(36.5)%	15.2%	3.1%	36.5%	18.6%	97.3%	104.3%	57.5%
EPS	(35.5)%	19.4%	32.5%	(11.7)%	4.2%	100.8%	(4.5)%	(36.8)%	14.4%	2.3%	35.4%	18.1%	97.3%	104.3%	57.0%

Source: Company filings and Taglich Brothers' estimates

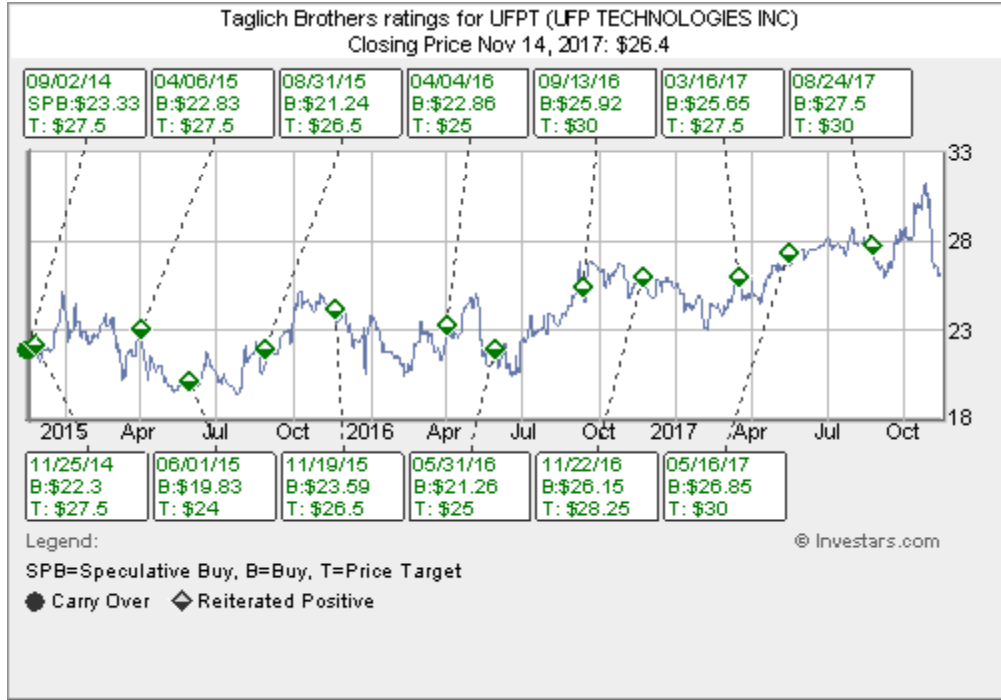
UFP Technologies, Inc.

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

	<u>2014A</u>	<u>2015A</u>	<u>2016A</u>	<u>9m17A</u>	<u>2017E</u>	<u>2018E</u>
Net income	7,559	7,593	7,970	6,495	8,214	12,936
Depreciation & amortization	4,376	4,846	5,634	4,171	5,865	5,699
(Gain) loss on disposal of property, plant and equipment	5	27	2	3	3	-
Share-based compensation	1,119	1,069	1,056	842	1,100	1,100
Excess tax benefit on share-based compensation	(1,219)	(356)	(145)	-	-	-
Deferred income taxes	<u>1,232</u>	<u>437</u>	<u>576</u>	<u>254</u>	<u>254</u>	<u>-</u>
Cash earnings	13,072	13,616	15,093	11,765	15,436	19,735
<i>Changes in assets and liabilities</i>						
Receivables	562	(1,011)	(3,768)	(795)	(71)	(2,120)
Inventories	(1,845)	(1,309)	51	1,015	109	(688)
Prepaid expenses	26	(266)	(1,351)	47	47	-
Refundable income taxes	(436)	2,362	209	(172)	(181)	979
Accounts payable	2,317	(800)	(596)	429	(31)	195
Accrued expenses and other	(2,243)	152	(361)	658	16	469
Retirement and other liabilities	(181)	29	213	201	201	-
Other assets	<u>(146)</u>	<u>325</u>	<u>(97)</u>	<u>(138)</u>	<u>(138)</u>	<u>-</u>
(Increase) decrease in working capital	(1,946)	(518)	(5,700)	1,245	(48)	(1,166)
Net Cash Provided by Operations	11,126	13,098	9,393	13,010	15,388	18,569
Additions to property, plant and equipment	(13,436)	(16,321)	(7,293)	(6,880)	(7,500)	(7,000)
Redemption of cash value life insurance	-	-	-	-	-	-
Proceeds from sale of fixed assets	<u>112</u>	<u>53</u>	<u>14</u>	<u>6</u>	<u>6</u>	<u>-</u>
Net Cash Used in Investing	(13,324)	(16,268)	(7,279)	(6,874)	(7,494)	(7,000)
Repurchases of common stock	-	(587)	-	-	-	-
Tax benefit from exercise of non-qualified stock options	1,219	356	145	-	-	-
Proceeds from exercise of stock options	336	358	529	630	630	630
Payment of statutory withholdings for stock options exercised	(831)	(209)	(219)	(107)	(107)	(107)
Principal repayments of long-term debt	(977)	(996)	(1,014)	(772)	(772)	-
Payment of contingent note payable	<u>(800)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Financing	(1,053)	(1,078)	(559)	(249)	(249)	523
Net Change in Cash	(3,251)	(4,248)	1,555	5,887	7,645	12,092
Cash - Beginning of Period	<u>37,303</u>	<u>34,052</u>	<u>29,804</u>	<u>31,359</u>	<u>31,359</u>	<u>39,004</u>
Cash - End of Period	<u>34,052</u>	<u>29,804</u>	<u>31,359</u>	<u>37,246</u>	<u>39,004</u>	<u>51,096</u>

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



31.43 % Buy 60 % Hold 7.14 % Not Rated 1.43 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	10
Hold		
Sell		
Not Rated	1	33

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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.