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Research Report – Update

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

Alpha Pro Tech, Ltd.

Rating: Buy

Howard Halpern
March 16, 2021

APT $11.17 — (NYSE MKT)

	2018 A	2019 A	2020 E*	***2021 E***	***2022 E***
Net Sales (in millions)	$46.6	$46.7	$102.7	***$99.7***	***$89.5***
Earnings (loss) per share	$0.26	$0.23	$1.80	***$1.38***	***$1.16***

52-Week range	$25.55 – $8.56	Fiscal year ends:	December
Shares outstanding a/o 03/02/21	13.6 million	Revenue/shares (ttm)	$7.35
Approximate float	11.5 million	Price/Sales (ttm)	1.5X
Market Capitalization	$151.9 million	Price/Sales (2022) E	1.7X
Tangible Book value/shr	$4.47	Price/Earnings (ttm)*	6.2X
Price/Book	2.5X	Price/Earnings (2022) E	9.6X

** 1Q20 excludes $2 million nonrecurring tax benefit due to the exercise of disqualified incentive stock options and non-qualified stock options*

Alpha Pro Tech, Ltd., owns and operates Alpha Pro Tech, Inc. and Alpha ProTech Engineered Products, Inc. The company is a vertically integrated developer, manufacturer and marketer of disposable protective apparel for the industrial, clean room, medical, and dental markets. The products in this segment include shoe covers, bouffant caps, coveralls, gowns, frocks and lab coats, as well as masks (including N-95) and face shields. The building supply segment, which is also vertically integrated, manufactures and markets a line of construction weatherization products, including building wrap and roof underlayment, as well as other woven materials.

Key Investment Considerations:

Maintaining Buy rating but reducing our 12-month price target to $16.75 per share from $24.50 due primarily to a decline in our 2022 EPS forecast compared to 2021, partly offset by an increase in the sector valuation.

In 2020, APT reached peak sales and EPS due primarily to the COVID-19 pandemic environment that enabled N-95 mask and shield sales of $52.6 million combined. However, due to increased competition from large domestic and global manufacturers and the progress in vaccinating the US population, we estimate sales from the company's N-95 masks and shields are likely to decline to $22.5 million in 2022.

The company will continue to have an opportunity to grow sales in its building materials segment and clothing within the disposable protective apparel segment. We anticipate double digit growth in those segments will likely mitigate the sales decrease in N-95 masks and shields.

IBISWorld projects the US personal protective equipment market should grow 3.2% annually to $7.3 billion in 2026, up from $6 billion in 2020. Industry growth should be driven by the stockpiling of personal protective clothing and face masks in order to meet the need of future pandemic outbreaks.

In 4Q20, APT reported (on 03/09/20) sales increased 165.8% to $29 million from $10.9 million reflecting disposable protective apparel segment sales of $21.1 million, up from $4.8 million in 4Q19. EPS increased to $0.53 from $0.03 in the year-ago period. We projected EPS of $0.50 on sales of $28 million.

For 2021, we project EPS of $1.38 (prior was $2.49) on a 2.9% decrease in sales to $99.7 million (prior was $142.9 million). Our reduced forecast reflects lower than anticipated sales of higher margin face mask and shield sales partly offset by disposable protective clothing and building material segment sales.

For 2022, we project EPS of $1.16 on a 10.3% decrease in sales to $89.5 million. Lower sales reflects a $20 million decrease in N-95 mask sales, partly offset by higher clothing and building material sales.

Please view our Disclosures pages 14 - 16

Appreciation Potential

Maintaining Buy rating but reducing our 12-month price target to $16.75 per share from $24.50 due primarily to a decline in our 2022 EPS forecast compared to 2021, partly offset by an increase in the sector valuation. Our rating reflects earnings that should remain significantly above pre COVID-19 pandemic levels and cash generation. The company's cash position increased to $23.3 million (or $1.67 per share) at December 31, 2020, up from $6.5 million (or $0.48 per share) at December 31, 2019. We project the company's cash balance could reach $40.5 million (or $2.91 per share) in 2022.

Our reduced price target reflects EPS decreasing from the peak pandemic level of $1.80 per share (excludes a $2 million nonrecurring tax benefit) in 2020 to $1.16 in 2022. In 2020, peak EPS reflects sales of $52.6 million in N-95 mask and face shields combined. While many factors are likely to diminish sales of the company's N-95 masks and face shields, the two primary factors are increased competition from domestic and global manufacturers including KN-95 face masks from China and the progress made in vaccinating the US population. We anticipate combined revenue from APT's N-95 masks and face shields are likely to decline to approximately $22.5 million in 2022.

We anticipate the company will grow sales by double digits in its building materials segment and disposable garments within the disposable protective apparel segment. Also, we anticipate capital investments being made in those areas of over $6 million in 2021 and 2022 combined should enable the company to maintain overall gross margins above 40% through our forecast period.

Our 12-month price target of $16.75 per share implies shares could appreciate approximately 50% over the next twelve months. According to finviz (a/o 03/15/21), the average forward price-to-earnings multiple for companies in Building Products and Apparel Manufacturing sectors is 15.2X (prior was 10.9X), compared to APT's forward P/E multiple of 9.6X (prior was 4.6X). We anticipate investors are likely to accord Alpha Pro Tech, Ltd. the sector multiple and therefore applied the current sector P/E multiple of 15.2X to our 2022 EPS forecast of $1.16, discounted for execution risk, to obtain a year-ahead price target of approximately $16.75 per share.

Alpha Pro Tech, Ltd. shares are best suited for investors seeking exposure to a company that is producing disposable personal protective apparel and N-95 masks in the COVID-19 pandemic environment. That latter of which is likely to diminish as progress is being made to vaccinate the US population against the COVID-19 virus.

Overview

Alpha Pro Tech, Ltd., headquartered in Ontario, Canada, owns and operates Alpha Pro Tech, Inc. and Alpha ProTech Engineered Products, Inc. The company maintains three vertically integrated production centers that produce innovative and high quality products within its disposable protective apparel and engineered products segments.

APT develops, manufactures and markets disposable protective apparel for the industrial, clean room, medical, and dental markets. The products sold in the US include shoe covers, bouffant caps, coveralls, gowns, frocks and lab coats, as well as face masks and face shields. Target markets include the manufacturing of pharmaceuticals, bio-pharmaceutical manufacturing and medical device manufacturing, lab animal research, high technology electronics manufacturing which includes the semi-conductor market, medical, and dental. In the US, protective apparel and face shields are manufactured at the company's facility in Nogales, Arizona with masks (including N-95 masks) manufactured in Salt Lake City, Utah. The Engineered Products segment manufactures and markets a line of construction weatherization products with the primary products including building wraps and synthetic roof underlayment, as well as other woven materials. In the US, engineered products are manufactured in Georgia.

Product Portfolio

This line of products demonstrates the company's core capabilities of creating proprietary products designed to protect people and environments.

Disposable Protective Apparel

The Alpha Pro Tech segment generates revenue from a complete line of disposable protective garments (shoecovers, bouffant caps, coveralls, gowns, frocks and lab coats – pictured on the bottom of the prior page), as well as face masks (including flat-fold N-95 masks).

The company's aim is to design and manufacture its disposable protective garments to keep the wearer cool, clean, and comfortable, as well as provide the correct level of protection for the wearer and the wearer's environment. In order to achieve their goal, the company utilizes a comprehensive selection of materials and garment designs that meets a wide range of application requirements. The materials are clean, durable, and offer the wearer comfort. This is especially important since one of the largest segments APT's products are sold to is pharmaceutial manufacturing, which needs clean materials for their plants in order to avoid product contamination. The apparel products are manufactured using proprietary materials such as ChemTech®, BarrierTech®, ComforTech®, AlphaGuard® and GenPro®, UltraGrip™, SafeStep® , MaxGrip® , AquaTrak® , SureGrip™ and NaviTrak®.

The majority of the company's disposable protective garments are manufactured through a joint venture in India. In most cases the products produced outside of the US are made using materials the company supplies.

The company's face masks are produced in a variety of filtration efficiencies and styles. It has a patented Positive Facial Lock® (PFL) feature, which provides a custom fit to the face to prevent blow-by (the potential for infectious material to enter or escape a facemask without going through the filter as a result of gaps or openings) for better protection. The company's Magic Arch® feature holds the mask away from the nose and mouth, creating a comfortable breathing chamber.

APT is producing an N-95 Particulate Respirator National Institute for Occupational Safety and Health approved face mask, which incorporates its Positive Facial Lock feature and the Magic Arch feature. In 2020, this product is experiencing increased demand due to COVID-19, just like it did during previously infectious disease outbreaks (SARS in 2003, Bird Flu in 2006, H1N1 in 2009, and Ebola in 2014). The N-95 mask is a flatfold design that delivers the user a comfortable, custom fitting facemask compared to the typical N-95 masks sold in the US. The integrated Magic Arch® technology creates a breathing chamber within the facemask by holding it away from the user's nose and mouth. It also incorporates PFL technology that provides an integrated Twist Seal® chinpiece.

The eye shields produced are manufucatured using optical-grade polyester film that has a permanent anti-fog feature. The goal of the shields it to provide the wearer with extremely lightweight, distortion-free protection that can be worn for hours, and the eye shields will not fog up from humidity and/or perspiration.

All of the company's disposable protective apparel products (including face masks and face shields) are sold through similar distribution channels and are produced in Food and Drug Administration approved facilities.

Building Supply

The Alpha ProTech Engineered Products segment generates most of its revenue within this segment through the sale of construction supply weatherization products - housewrap and synthetic roof underlayment offerings. Revenue is also generated from the sale of other woven materials.

The company's aim in developing construction supply weatherization products is to provide customers with certain advantages such as decreasing construction time to build a home, which reduces costs for its customers.

The housewrap is trademarked under the REX™ name. This product provides a weather resistant barrier for the home, as well as reduced energy consumption for the homeowner. REX Wrap products are woven and coated polypropylene micro perforated weather resistant barriers. The company believes its Fortis offering with JX ALTA 360° Drainage Technology is a one-of-a-kind breathable product that uniquely enables the drainage of water in every direction to protect buildings from outdoor elements better than typical housewrap offerings of its competitors. Overall, the company's products are intended to reduce jobsite material waste, providing a simple method of installation to reduce labor, and enabling fewer products to be carried onto the jobsite.

APT produces proprietary synthetic roof underlayment called REX™ SynFelt, which has the ability to resist the environment compared to conventional organic roofing underlayment that is prone to rapid deterioration and mold growth. The company's primary growth driver within its synthetic roof underlayment product portfolio is the manufacture and distribution of TECHNOply™ and TECHNO™ SB, their economy versions of its synthetic roof underlayment. While this product was developed to capture market share in the lower end of the market, it still is 100% synthetic woven to provide high tear strengths, as well as a proprietary walking surface to reduce potential accidents. This is a climate friendly green solution for ecological building technology and is UV and water/moisture resistant for six months, which enables schedule flexibility for those managing home construction job sites.

Growth Strategy

The company has built an organization with a strategy that is focused on developing, producing, and marketing differentiated innovative high value products that protect people, products, and environments. Since APT's inception in 1989, its sales strategies have been simplified to communicating directly with end users and developing innovative products to suit their needs.

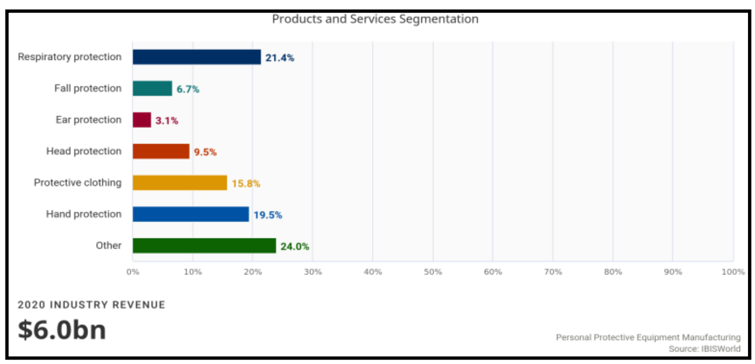
The primary growth driver through our forecast period is meeting increased customer demand primarily for its disposable protective clothing within the disposable protective apparel segment. In 2020, APT has demonstrated its flexability to adjust to market conditions during the COVID-19 global pandemic environment with record sales of its N-95 masks and face shields and disposable garments. Entering 2021, APT's open orders for its disposable protective garments remain at historically high levels and its joint venture in India through which these products are manufactured has ramped up production capacity in order to respond to this demand. Meeting the demand for disposable protective garments should mitigate the declining sales of N-95 flat fold face masks during our forecast period.

The company's building supply segment has the competitive advantage of being vertically integrated. After sourcing the material to manufacture housewrap and synthetic roof underlayment products, the company controls its process compared to competitors that use third party manufacturers. The stability and control provided in the company's manufacturing process should enable it to meet existing and new customer demand. New customer demand is likely to come from those customers whose existing suppliers are unable to produce products in a timely manner.

Industry Briefs

Disposable Protective Apparel

IBISWorld projects the Personal Protective Equipment Manufacturing industry growing 10.6% to $6 billion in 2020. IBISWorld projects a 3.2% annualized growth rate reaching $7.3 billion in 2026. The high growth rate for 2020 reflects the COVID-19 pandemic environment due to an unprecedented surge in demand for N95 masks, respirators, face shields, gloves and disposable garments. IBISWorld anticipates the overall impact from the COVID-19 pandemic in future years will be an increased emphasis on domestic production in the interest of national security consistent level of stockpiling in anticipation of the next pandemic.



Based on IBISWorld's November 2020 forecast for the PPE industry, if the percentages for respiratory protection and protective clothing segments (37.2% total – see chart above) hold, 2026 spending on those categories should approximate $2.7 billion, up from an estimated $2.2 billion forecast for 2020. Overall industry growth should remain high in 2021 as COVID-19 virus mitigation efforts continue. IBISWorld predicts demand for industry products should be sustained due primarily to global stockpiling efforts among governments, institutions and organizations.

Another key customer base for the company is the dental services market. The COVID-19 pandemic has resulted in state and industry mandates and recommendations that should result in increasing dental protective equipment sales.

Research marketing firm Technavio predicts that the global dental surgical equipment market should increase by $1.4 billion or nearly 6% annually from 2020 to 2024.

Building Supply

The company produces housewraps for the construction industry. Housewrap is typically a synthetic material used to protect buildings and functions as a weather-resistant barrier, preventing rain from getting into the wall assembly while allowing water vapor to pass to the exterior. In April 2020, according to a report (Global House Wraps Market 2020) published by 360researchreports.com, the global housewrap market is likely to approximate $2.3 billion in 2020 and grow annually by 4.4% reaching $3.1 billion in 2026.

In June 2020, Researchandmarkets.com published a report that projected the global non-perforated housewrap segment to grow annually by 6.8%, reaching $7.4 billion in 2027. The forecast estimated US annualized growth is likely to be 5.1% due primarily to the COVID-19 pandemic environment at the beginning of their forecast period.

According to market research firm Global Industry Analysts, Inc. the global housewrap market is estimated to be $6.3 billion in 2020 and achieve 6.4% annualized growth reaching $9.7 billion in 2029. The report estimates the US housewrap market at $1.7 billion in 2020.

Market research and consulting firm Global Market Insights published a report indicating that the Roofing Underlayment market generated revenue of $34.3 billion in 2019. The report estimates revenue could approach $50 billion in 2026. Supporting revenue growth for this sector should be government initiatives to adopt ecofriendly alternatives for buildings, as well as scaling up of commercial and residential construction activities which is an influencer of roofing underlayment demand globally. Non-bitumen (asphalt or tar based) synthetic underlayment should increase annually by 5.1% to 2026 since they are likely to be preferred over the traditional underlayment type stemming from the fact that they are composed of either polypropylene or polyethylene. The primary advantage of synthetics versus asphalt or tar based underlayment's is they are lightweight but strong, typically non-skid, resistant to fungal growth, and do not absorb moisture.

Projections

Basis of Forecast

In 2020, the company generated peak results due to COVID-19 pandemic conditions, which stemmed from sales of $52.6 million in N-95 mask and face shields combined. Two primary factors in our forecast for reduced N-95 mask sales forecast is increased competition from larger domestic and global manufacturers and the progress in vaccinating the US population against the COVID-19 virus. We anticipate combined revenue from the company's N-95 mask and face shields likely to decline to approximately $22.5 million in 2022.

We anticipate the company will grow sales by double digits in its building materials segment and disposable garments within the disposable protective apparel segment. Also, we anticipate capital investments being made in those areas of over $6 million in 2021 and 2022 combined should enable the company to maintain overall gross margins above 40% through our forecast period.

In 2022, we anticipate expansion of gross margin to 43.5% compared to pre COVID-19 pandemic gross margin of 36.4% in 2019, but down from the 2020 peak of 49.2%. Gross margin remaining above 40% stems from company's overall product mix and capital investments being made through 2022 in APT's building materials segment.

Economy

In January 2021, the International Monetary Fund (IMF) revised its economic growth estimate for the US to an increase of 5.1% for 2021 and 2.5% for 2022. In October 2020, the IMF projected US economic growth of 3.1% for 2021 and 2.9% for 2022.

According to data and economic model provider Trading Economics, US housing starts are estimated to average nearly 1.2 million in 2021 and trend higher in 2022 to nearly 1.3 million, up from slightly less than 1.1 million in 2020. Housing trends should support sales growth in APT's building supply segment and our forecast of 15.6% in

2022, driven primarily by an 18.5% increase in synthetic roof underlayment product sales to new and existing customers.

Operations – 2021
We project a 2.9% decrease sales to $99.7 million (prior was $142.9 million) due primarily to $41.8 million in N-95 mask and face shields combined compared to $52.7 million in 2020. We previously anticipated N-95 mask and face shields sales combined of $88 million. The decrease in mask and shield sales should be partly offset by 13.4% growth in the company's building supply segment to $34.7 million from $30.6 million in 2020 and a 19.2% increase in disposable protective garment sales to $23.2 million from $19.5 million in 2020.

We forecast gross profit of $44.9 million compared $50.5 million in 2020 due to lower sales and gross margin compression to 45% from 49.2% in 2020. Gross margin compression reflects a reduction in higher margin N-95 masks and higher raw material costs.

We project operating income of $25.9 million, down from $31.6 million in 2020. The decrease in operating income reflects lower sales, gross margin compression and operating margin expense increasing to 19% from 18.4% in 2020. We forecast operating expenses flat at $18.9 million as SG&A expense remains flat at approximately $18.2 million. We expect D&A expense to increase by $41,000 to $770,000 to account for a full year of the company's plant expansion in Utah completed in 2H20.

We project interest income of $20,000 compared to $18,000 in 2020. We project net income of $19.5 million or $1.38 per share (prior was $34.9 million or $2.49 per share) on a tax rate of 25% (prior was 23.7%).

Finances – 2021
We project cash earnings of $20.6 million and an increase in working capital of $3.7 million. The increase in working capital is due primarily to increases in receivables and a decrease in accruals. Cash from operations of $16.9 million should cover capital expenditures and repurchase of common stock. Cash should increase $8.4 million to $31.7 million at December 31, 2021.

Operations – 2022
We project a 10.3% decrease in sales to $89.5 million from an estimated $99.7 million in 2021 due primarily to a $20.3 million decrease in N-95 mask and face shields combined to $20.5 million. The decrease in mask and shield sales should be partly offset by 15.6% growth in the company's building supply segment to $40.1 million from an estimated $34.7 million in 2021 and a 20.1% increase in disposable protective garment sales to $27.9 million from an estimated $23.2 million in 2021.

We forecast gross profit of $38.9 million, down from an estimated $44.9 million in 2021 due primarily to lower sales and gross margin compression to 43.5% from an estimated 45% in 2021. Gross margin compression is due primarily to lower sales of high margin N-95 mask sales.

We project operating income of $38.9 million, down from an estimated $44.9 million in 2021. The decrease in operating income reflects lower sales, gross margin compression, and operating margin expense increasing to 19.5% from an estimated 19% in 2021. We forecast operating expenses decreasing to $17.4 million compared to an estimated $18.9 million in 2021. We forecast SG&A expense decreasing 7.9% to $16.7 million reflecting lower mask sales, partly offset by costs to support sales growth in its building supply segment. We expect D&A expense to decrease by $80,000 to $690,000.

We project interest income flat at $20,000. We project net income of $16.1 million or $1.16 per share on a tax rate of 25%.

Finances – 2022
We project cash earnings of $17.1 million and an increase in working capital of $7 million. The increase in working capital is due primarily to increases in receivables and prepaid expenses. Cash from operations of $10.1 million should cover capital expenditures, increasing cash by $8.8 million to $40.5 million at December 31, 2022.

2020 and 4Q20 Results

2020 Results

The company reported that net sales increased 120% to $102.7 million compared to $46.7 million in 2019. The net sales increase reflects $72.1 million in the disposable protective apparel segment sales compared to $20.1 million in 2019, and an increase to $30.6 million from $26.6 million in the year-ago period in the building supply segment. The 159% increase in disposable protective apparel sales stems from a more than 13-fold increase in face mask sales to $41.8 million, and a more than 7-fold increase in face shield sales to $10.8 million reflecting customer demand due primarily to the COVID-19 pandemic environment. Disposable protective garment sales increased 23.7% to $17.1 million. The 15.1% increase in building supply sales to $20.6 million reflects a 16.4% increase in synthetic roof underlayment and a 12.5% increase in housewrap sales, as well as other woven product sales of nearly $2.8 million compared to nearly $2.4 million in the year-ago period.

Gross profit increased 197% to $50.5 million from nearly $17 million in the year-ago period. The increase reflects sales growth and gross margin expansion to 49.2% from 36.4% in 2019. The improvement in gross margin stems from a major shift in the product mix to higher margin face masks (primarily N-95 masks) and face shields. Operating expenses increased 35.5% to $18.9 million from nearly $14 million last year. SG&A expense increased 36.1% to nearly $18.2 million from $13.3 million due primarily to increases in employee compensation, commissions, accrued bonuses, insurance costs, and factory-related expenses to insure the health and welfare of employees stemming from the COVID-19 pandemic. D&A expense was $729,000 compared to $602,000 in 2019.

Income from operations improved to nearly $31.6 million compared to $3 million in the year-ago period due to sales growth, gross margin expansion, and operating margin expense improving to 18.4% from 29.9%.

Non-operating income was $666,000 compared to $658,000 reflecting a $710,000 gain from equity in income of unconsolidated affiliate compared to $359,000 in 2019 and a loss on marketable securities of $62,000 compared to a gain of $231,000 last year, as well as interest income of $18,000 compared to $68,000.

Net income was $27.1 million or $2.01 per share (including $2 million of a nonrecurring tax benefit due to the exercise of disqualified incentive stock options and non-qualified stock options in 1Q20). We estimated EPS excluding the nonrecurring tax benefit of approximately $1.80 per share. We projected net income (excluding the tax benefit) of $24.7 million $1.79 per share on sales of $101.7 million. In 2019, net income was $3 million or $0.23 per share.

4Q20 Results

The company reported that net sales increased 166% to $29 million compared to $10.9 million in the year-ago period. The increase reflects a nearly 343% increase in the disposable protective apparel segment sales to $21.1 million compared to $4.8 million in 4Q19, and a 28.4% increase in the building supply segment to $7.9 million from $6.2 million.

Gross profit increased 269% to $14.2 million from $3.8 million in the year-ago period due to sales growth and gross margin expansion to 48.9% from 35.2%. The improvement in gross margin stems from a major shift in the product mix to higher margin face masks (primarily N-95 masks) and face shields. Operating expenses increased 49.1% to $5.1 million from $3.4 million in 4Q19 reflecting a 52.3% increase in SG&A expense. D&A expense was $183,000 compared to $192,000 in year-ago period. Income from operations improved to nearly $9.1 million compared to $411,000 in the year-ago period due to sales growth, gross margin expansion, and operating margin expense improving to 17.6% from 31.4% in the year-ago period.

Non-operating income was $235,000 compared to $14,000 in the year-ago period. The increase reflects a gain in equity income of unconsolidated affiliate of $254,000 compared to a loss of $12,000 in 4Q19.

Net income was $7.4 million or $0.53 per share compared to $335,000 or $0.03 per share in the year-ago period.

Finances

In 2020, cash earnings of nearly $27.2 million and a nearly $8.9 million increase in working capital resulting in cash from operations of $18.3million. The increase in working capital was due primarily to an increase in receivables, inventory, and prepaid assets, partly offset by an increase in payables and accruals. Cash from operations and proceeds from the exercise of stock options covered capital expenditures and repurchase of common stock. Cash increased $16.7 million to $23.3 million at December 31, 2020.

Capital Structure

At December 31, 2020 the company had no debt, a cash balance of $23.3 million (or $1.67 per share), working capital of $49.5 million with a current ratio of 9 to 1. In 2Q20, the company did not renew its $3.5 million credit facility since it had a strong cash position that should be sufficient to satisfy working capital needs and planned capital expenditures for the foreseeable future.

At December 31, 2020, APT had $4.5 million available for additional stock purchases under its stock repurchase program. In 2020, 223,000 shares of common stock was repurchased for nearly $2.7 million and all stock repurchased will be retired. Prior to and including 2020, the company repurchased over 18.1 million shares of common stock at a cost of over $38 million through its repurchase program.

Competitive Landscape

The company's product offerings compete on the basis of quality, pricing, availability, responsiveness to customers and manufacturing capability. The industry landscape is highly competitive since there are only a few competitors that have monopolistic positions. APT faces competition from companies that have greater marketing and financial resources.

Major competitors to the company's engineered products segment within the construction supply weatherization market are DuPont for housewrap products and Interwrap Inc. for synthetic roof underlayment. Competitors for the company's disposable apparel and face coverings offering include Kimberly-Clark Corporation (primarily for in the medical and dental markets), as well as 3M Company, Johnson & Johnson, Precept Medical Products (a division of White Knight Engineered Products), Cardinal Health, Inc. and Medline Industries Inc.

APT's products that are sold into the industrial and cleanroom market compete against VWR International, Kimberly-Clark, 3M Company, Kappler, Inc., DuPont and Allegiance Healthcare. However, VWR International, Cardinal Health, Inc., and Medline Industries Inc. still distribute some of the company's product offerings.

Risks

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

Global Pandemic

The COVID-19 global pandemic or any future outbreaks of contagious diseases could have a material adverse effect on Alpha Pro Tech's internal operations.

The company's operations have experienced a combination of positive and negative impacts on its business operations and financial conditions in the COVID-19 pandemic environment.

COVID-19 Vaccine

Deployment of the COVID-19 vaccines in the US could cause orders for its N-95 mask and face shield to diminish, which could disrupt the company's sales.

Economic Conditions

Prolonged recessions or economic downturns in the US or globally could negatively affect the company's operations and financial results. The impacts on the company from a prolonged economic downturn could include lower demand, a change in product mix, lower collection of receivables, or difficulty in obtaining raw materials. A recession could cause APT to experience reduced revenue, margins and earnings.

Customer Concentration
In 2020, APT's three largest customers accounted for approximately 42% of net sales compared to 32% of net sales for its two largest customers in 2019. In 2020, two customers accounted for approximately 29% of receivables compared to two customers accounting for 28% in 2019.

Suppliers
The company relies on a limited number of suppliers and contractors for the manufacture of its products. If key suppliers and contractors are lost, or if they are unwilling or unable to satisfy raw material requirements, finding substitute suppliers or contractors may be time-consuming. The impacts could disrupt operations.

International Manufacturing
The company subcontracts manufacturing of some of its goods within Asia and Mexico. Certain proprietary products are manufactured with materials supplied by the company, as well as to their specifications and quality assurance guidelines.

The travel restrictions due to the COVID-19 pandemic environment could disrupt the APT's ability to receive manufactured products from China and may disrupt other suppliers that rely on products produced in China. Disruption of production schedules caused by an unexpected shortage of supplies even for a relatively short period of time could cause an alteration in production schedules or suspend production entirely, which could cause a loss of revenues.

The company's joint venture in India could expose it to operational, financial, and/or legal and compliance risks.

Shareholder Control
Officers and directors collectively own approximately 10.6% of the company's outstanding voting stock with two investment funds collectively owning 14% of voting shares (April 2020 SEC Filing). Collectively this ownership could potentially greatly influence the outcome of matters requiring stockholder approval. These decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk
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.

Trading Volume
In 2020, average daily volume was approximately 3.4 million, up from 25,900 in 2019. Average daily volume decreased over the last three months (ending March 15, 2021) to approximately 1.1 million. APT has 13.6 million shares outstanding and a float of approximately 11.5 million. Investors should be aware that average daily volume activity and price volatility is likely due to APT's products being position to satisfy the needs of customers stemming from the COVID-19 pandemic.

Alpha Pro Tech, Ltd.
Consolidated Balance Sheets
FY2018 – FY2022E
(in thousands)

	FY18A	FY19A	FY20A	**FY21E**	**FY22E**
ASSETS					
Current assets:					
Cash	$ 7,007	$ 6,548	$ 23,292	**$ 31,720**	**$ 40,503**
Investments	258	335	-	**-**	**-**
Accounts receivable, net	4,935	3,568	8,132	**11,077**	**16,154**
Accounts receivable, related party	383	724	905	**905**	**905**
Inventory	9,878	11,303	16,749	**13,709**	**12,638**
Prepaid assets	3,999	3,587	6,225	**6,480**	**8,768**
Total current assets	26,460	26,065	55,303	**63,890**	**78,968**
Property and equipment, net	3,244	3,943	4,353	**4,400**	**4,425**
Goodwill	55	55	55	**55**	**55**
Definite-lived intangible assets, net	16	11	7	**3**	**-**
Right-of-use assets	-	3,178	3,535	**4,935**	**4,935**
Equity investments in unconsolidated affiliate	4,480	4,839	5,549	**6,749**	**6,949**
Total assets	$ 34,255	$ 38,091	$ 68,802	**$ 80,032**	**$ 95,332**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	578	501	1,983	**632**	**702**
Accrued liabilities	1,342	920	2,793	**850**	**500**
Customer advance payments of orders	-	-	209	**-**	**-**
Lease liabilities	-	882	867	**867**	**450**
Total current liabilities	1,920	2,303	5,852	**2,349**	**1,652**
Lease liabilities, net	-	2,337	2,719	**1,632**	**1,300**
Deferred income tax liabilities, net	141	224	211	**211**	**105**
Stockholders' equity:					
Common stock,$.01 par value; authorized 50,000,000 shares;	135	129	135	**135**	**135**
Additional paid-in capital	2,669	708	409	**(3,216)**	**(2,916)**
Accumulated other comprehensive loss	-	-	-	**-**	**-**
Retained earnings (deficit)	29,390	32,390	59,476	**78,921**	**95,056**
Total stockholders' equity	32,194	33,227	60,020	**75,840**	**92,275**
Total liabilities and stockholders' equity	$ 34,255	$ 38,091	$ 68,802	**$ 80,032**	**$ 95,332**
SHARES OUT	13,503	12,885	13,420	**13,300**	**13,400**

Source: Company reports and Taglich Brothers estimates

Alpha Pro Tech, Ltd.
Annual Income Statement
FY2018 – FY2022E
(in thousands)

	FY18 A	FY19 A	FY20 A*	**FY21 E**	**FY22 E**
Net sales	$ 46,624	$ 46,665	$ 102,700	**$ 99,690**	**$ 89,470**
Cost of sales, excludes D&A	28,913	29,693	52,218	**54,835**	**50,550**
Gross Profit	17,711	16,972	50,482	**44,855**	**38,920**
Operating Expenses:					
Selling, general, and administrative	13,312	13,348	18,171	**18,175**	**16,740**
Depreciation and amortization	525	602	729	**770**	**690**
Total Operating Expenses	13,837	13,950	18,900	**18,945**	**17,430**
Operating Income (loss)	3,874	3,022	31,582	**25,910**	**21,490**
Equity in income of unconsolidated affiliate	587	359	710	**-**	**-**
Gain (loss) on marketable securites	(50)	231	(62)	**-**	**-**
Interest income	3	68	18	**20**	**20**
Total other income (expense)	540	658	666	**20**	**20**
Pre-Tax Income (loss)	4,414	3,680	32,248	**25,930**	**21,510**
Income Tax Expense (benefit)	789	680	7,162	**6,485**	**5,375**
Net income (loss)	$ 3,625	$ 3,000	$ 25,086	**$ 19,445**	**$ 16,135**
Net (loss) per share	$ 0.26	$ 0.23	$ 1.80	**$ 1.38**	**$ 1.16**
Avg Shares Outstanding	13,963	13,143	13,972	**14,044**	**13,939**
Adjusted EBITDA	$ 4,831	$ 4,075	$ 32,607	**$ 26,976**	**$ 22,476**
Margin Analysis					
Gross margin	38.0%	36.4%	49.2%	**45.0%**	**43.5%**
Selling, general, and administrative	28.6%	28.6%	17.7%	**18.2%**	**18.7%**
Depreciation and amortization	1.1%	1.3%	0.7%	**0.8%**	**0.8%**
Operating margin	8.3%	6.5%	30.8%	**26.0%**	**24.0%**
Pre-tax margin	9.5%	7.9%	31.4%	**26.0%**	**24.0%**
Tax rate	17.9%	18.5%	22.2%	**25.0%**	**25.0%**
YEAR / YEAR GROWTH					
Total Revenues	5.9%	0.1%	120.1%	**(2.9%)**	**(10.3%)**

* Excludes $2 million nonrecurring tax benefit due to the exercise of disqualified incentive stock options and non-qualified stock options in 1Q20

Source: Company reports and Taglich Brothers estimates

Alpha Pro Tech, Ltd.
Income Statement Model
Quarters FY2020A – 2022E
(in thousands)

	Q1 20 A	Q2 20 A	Q3 20 A	Q4 20 A	FY20 A*	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**	Q1 22 E	Q2 22 E	Q3 22 E	Q4 221 E	**FY22 E**
Net sales	$ 18,154	$ 25,500	$ 30,027	$ 29,019	$ 102,700	$ 23,040	$ 22,570	$ 26,355	$ 27,725	**$ 99,690**	$ 20,440	$ 21,500	$ 23,925	$ 23,605	**$ 89,470**
Cost of sales, excludes D&A	9,600	12,887	14,891	14,840	52,218	12,435	12,450	14,500	15,450	**54,835**	11,300	12,000	13,500	13,750	**50,550**
Gross Profit	8,554	12,613	15,136	14,179	50,482	10,605	10,120	11,855	12,275	**44,855**	9,140	9,500	10,425	9,855	**38,920**
Operating Expenses:															
Selling, general, and administrative	4,102	4,554	4,580	4,935	18,171	4,200	4,150	4,875	4,950	**18,175**	4,000	4,150	4,300	4,290	**16,740**
Depreciation and amortization	182	178	186	183	729	200	195	190	185	**770**	180	175	170	165	**690**
Total Operating Expenses	4,284	4,732	4,766	5,118	18,900	4,400	4,345	5,065	5,135	**18,945**	4,180	4,325	4,470	4,455	**17,430**
Operating Income (loss)	4,270	7,881	10,370	9,061	31,582	6,205	5,775	6,790	7,140	**25,910**	4,960	5,175	5,955	5,400	**21,490**
Equity in income of unconsolidated affiliate	87	119	250	254	710	-	-	-	-	-	-	-	-	-	-
Gain (loss) on marketable securites	(59)	41	(24)	(20)	(62)	-	-	-	-	-	-	-	-	-	-
Interest income	16	-	1	1	18	5	5	5	5	**20**	5	5	5	5	**20**
Total other income (expense)	44	160	227	235	666	5	5	5	5	**20**	5	5	5	5	**20**
Pre-Tax Income (loss)	4,314	8,041	10,597	9,296	32,248	6,210	5,780	6,795	7,145	**25,930**	4,965	5,180	5,960	5,405	**21,510**
Income Tax Expense (benefit)	972	1,822	2,490	1,878	7,162	1,550	1,450	1,700	1,785	**6,485**	1,240	1,300	1,500	1,335	**5,375**
Net income (loss)	$ 3,342	$ 6,219	$ 8,107	$ 7,418	$ 25,086	$ 4,660	$ 4,330	$ 5,095	$ 5,360	**$ 19,445**	$ 3,725	$ 3,880	$ 4,460	$ 4,070	**$ 16,135**
Net (loss) per share	$ 0.24	$ 0.46	$ 0.58	$ 0.53	$ 1.80	$ 0.33	$ 0.31	$ 0.36	$ 0.38	**$ 1.38**	$ 0.27	$ 0.28	$ 0.32	$ 0.29	**$ 1.16**
Avg Shares Outstanding	13,665	13,652	14,033	13,948	13,972	14,100	14,050	14,025	14,000	**14,044**	13,950	13,940	13,935	13,930	**13,939**
	-					-					-				
Adjusted EBITDA	$ 4,543	$ 8,151	$ 10,647	$ 9,345	$ 32,607	$ 6,530	$ 6,095	$ 7,105	$ 7,450	**$ 26,976**	$ 5,265	$ 5,475	$ 6,250	$ 5,690	**$ 22,476**
Margin Analysis															
Gross margin	47.1%	49.5%	50.4%	48.9%	49.2%	46.0%	44.8%	45.0%	44.3%	**45.0%**	44.7%	44.2%	43.6%	41.7%	**43.5%**
Selling, general, and administrative	22.6%	17.9%	15.3%	17.0%	17.7%	18.2%	18.4%	18.5%	17.9%	**18.2%**	19.6%	19.3%	18.0%	18.2%	**18.7%**
Depreciation and amortization	1.0%	0.7%	0.6%	0.6%	0.7%	0.9%	0.9%	0.7%	0.7%	**0.8%**	0.9%	0.8%	0.7%	0.7%	**0.8%**
Operating margin	23.5%	30.9%	34.5%	31.2%	30.8%	26.9%	25.6%	25.8%	25.8%	**26.0%**	24.3%	24.1%	24.9%	22.9%	**24.0%**
Pre-tax margin	23.8%	31.5%	35.3%	32.0%	31.4%	27.0%	25.6%	25.8%	25.8%	**26.0%**	24.3%	24.1%	24.9%	22.9%	**24.0%**
Tax rate	22.5%	22.7%	23.5%	20.2%	22.2%	25.0%	25.1%	25.0%	25.0%	**25.0%**	25.0%	25.1%	25.2%	24.7%	**25.0%**
YEAR / YEAR GROWTH															
Total Revenues	47.5%	123.4%	149.7%	165.8%	120.1%	26.9%	(11.5%)	(12.2%)	(4.5%)	**(2.9%)**	(11.3%)	(4.7%)	(9.2%)	(14.9%)	**(10.3%)**

* Excludes $2 million nonrecurring tax benefit due to the exercise of disqualified incentive stock options and non-qualified stock options in 1Q20

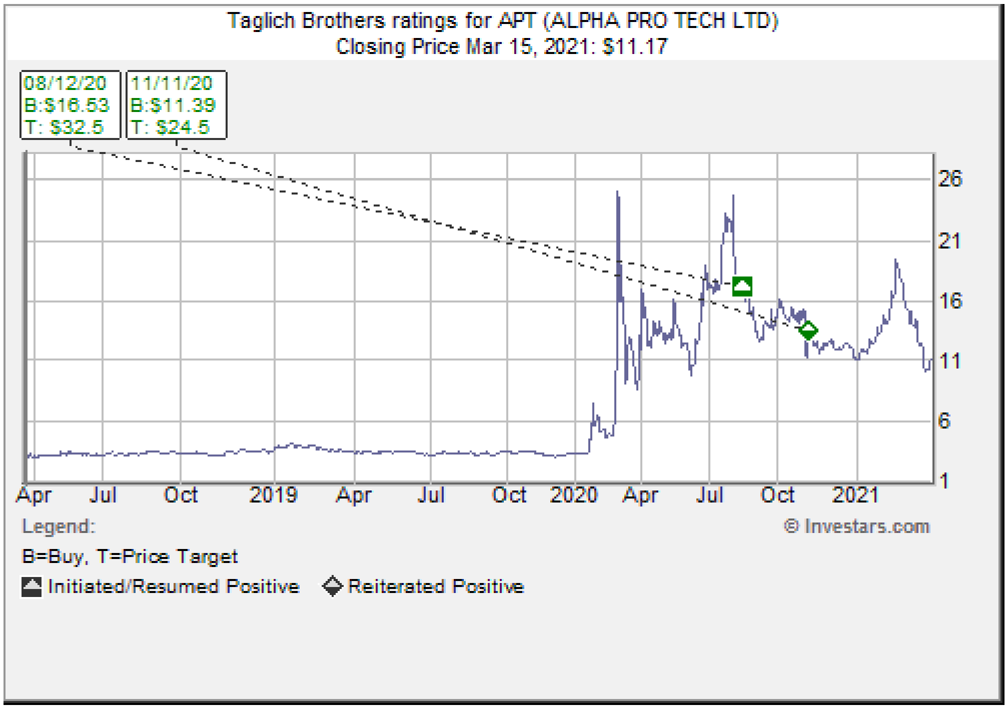
Source: Company reports and Taglich Brothers estimates

Alpha Pro Tech, Ltd.
Cash Flow Statement
FY2018 – FY2022E
(in thousands)

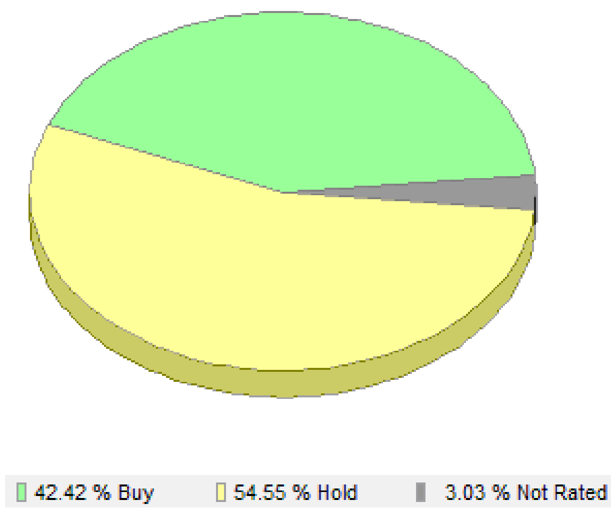
	FY2018A	FY2019A	FY2020A	**FY2021E**	**FY2022E**
Cash Flows from Operating Activities					
Net Income (loss)	$ 3,625	$ 3,000	$ 27,086	**$ 19,445**	**$ 16,135**
Share-based compensation	432	451	375	**375**	**300**
Depreciation and amortization	525	602	729	**770**	**690**
Gain (loss) on marketable securites	50	(231)	62	**-**	**-**
Equity in income of unconsolidated affiliate	(587)	(359)	(710)	**-**	**-**
Deferred income taxes	159	83	(13)	**-**	**-**
Operating lease expense, net of accretion	-	704	(357)	**-**	**-**
Cash earnings (burn)	4,204	4,250	27,172	**20,590**	**17,125**
Changes In:					
Accounts receivable	(338)	1,367	(4,564)	**(2,945)**	**(5,078)**
Accounts receivable, related party	(22)	(341)	(181)	**-**	**-**
Inventory	371	(1,425)	(5,446)	**3,040**	**1,071**
Prepaid expenses	(1,334)	412	(2,638)	**(255)**	**(2,288)**
Accounts payable and accrued liabilities	(881)	(500)	3,355	**(3,294)**	**(280)**
Customer advance payments of orders	-	-	209	**(209)**	**-**
Lease liabilities	-	(662)	367	**-**	**(417)**
(Increase)/decrease in Working Capital	(2,204)	(1,149)	(8,898)	**(3,662)**	**(6,992)**
Net cash (used) provided by operations	2,000	3,101	18,274	**16,928**	**10,133**
Cash Flows from Investing Activities					
Purchase of property and equipment	(606)	(1,296)	(1,135)	**(4,500)**	**(1,350)**
Proceeds from sales of marketable securities	36	154	273	**-**	**-**
Cash Flows from Investing Activities	(570)	(1,142)	(862)	**(4,500)**	**(1,350)**
Cash Flows from Financing Activities					
Proceeds from exercise of stock options	394	130	1,998	**-**	**-**
Repurchase of common stock	(3,580)	(2,548)	(2,666)	**(4,000)**	**-**
Net cash provided by (used in) Financing	(3,186)	(2,418)	(668)	**(4,000)**	**-**
Net change in Cash	(1,756)	(459)	16,744	**8,428**	**8,783**
Cash Beginning of Period	8,763	7,007	6,548	**23,292**	**31,720**
Cash End of Period	$ 7,007	$ 6,548	$ 23,292	**$ 31,720**	**$ 40,503**

Source: Company reports 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	14
Hold		
Sell		
Not Rated		

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Public Companies mentioned in this report:

Cardinal Health, Inc.	(NYSE: CAH)	Kimberly-Clark Corporation	(NYSE: KMB)
DuPont de Nemours, Inc.	(NYSE: DD)	3M Company	(NYSE: MMM)
Johnson & Johnson	(NYSE: JNJ)		

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.

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