

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

May 11, 2021

UFPT \$55.32 — (NASDAQ CM)

	2019A	2020A	2021E	2022E
Revenues (millions)	\$198.4	\$179.4	\$193.6	\$213.0
Earnings per share (diluted)	\$2.63	\$1.77	\$2.30	\$3.08

52-Week range	\$55.83 – \$36.69	Fiscal year ends:	December
Shares outstanding as of 5/3/20	7.5 million	Revenue per share (TTM)	\$23.82
Approximate float	6.3 million	Price/Sales (TTM)	2.3X
Market capitalization	\$415 million	Price/Sales (2022)E	2.0X
Tangible book value/share	\$14.57	Price/Earnings (TTM)	30.7X
Price/tangible book	3.8X	Price/Earnings (2022)E	18.0X

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

Key investment considerations:

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$65.00 per share from \$61.00 based on our increased 2022 EPS forecast.

The COVID-19 pandemic adversely impacted UFPT's operations in 2020. Elective medical procedures and exams were delayed or canceled and hospitals postponed or canceled capital purchases. Many of UFPT's customers in the automotive markets experienced closures of their businesses. These adverse conditions reduced demand for the company's products.

As pandemic conditions ease, we believe growth should resume and project 7.9% revenue growth in 2021 and 10% growth in 2022.

The company has a strong balance sheet and the cash to make strategic acquisitions. As of March 31, 2021, UFPT had \$25.4 million cash, shareholder's equity of \$180.8 million, and no debt. We project the company will generate over \$53.4 million in cash from operations over the next two years and end 2022 with \$67.1 million in cash.

1Q21 sales (10Q released on 5/7/21) increased 0.7% to \$48.6 million with EPS of \$0.55, up from \$0.52 in 1Q20. We projected 1Q21 net sales of \$44.4 million and EPS of \$0.39.

For 2021, we project a 7.9% increase in revenue to \$193.6 million and EPS of \$2.30. We previously projected revenue of \$188.4 million and EPS of \$2.19. The change in our projections primarily reflects 1Q21 results.

For 2022, we project a 10% increase in revenue to \$213 million and EPS of \$3.08. We previously projected revenue of \$208 million and EPS of \$2.92. The change in our projections primarily reflects growth in medical market sales.

Please view our disclosures on pages 12 - 14.

Recommendation and Valuation

Reiterating Buy rating on UFP Technologies and raising our twelve-month price target to \$65.00 per share from \$61.00 based on our increased 2022 EPS forecast.

The COVID-19 pandemic adversely impacted UFPT’s operations in 2020. Elective medical procedures and exams were delayed or canceled, there was a significant reduction in physician office visits, and hospitals postponed or canceled capital purchases which reduced demand for the company’s components for medical devices. Many of UFPT’s customers in the automotive markets experienced closures of their businesses in connection with the pandemic which reduced demand for the company’s automobile component products.

In response to the economic uncertainties resulting from the COVID-19 pandemic, the company initiated in 2020 and is currently continuing in 2021 certain cost-cutting measures, including travel restrictions and labor reductions.

As pandemic conditions ease, we believe growth should resume and project 7.9% revenue growth in 2021 and 10% growth in 2022.

The company has a strong balance sheet and the cash to make strategic acquisitions. As of March 31, 2021, UFPT had \$25.4 million cash, shareholder’s equity of \$180.8 million, and no debt. We project the company will generate over \$53.4 million in cash from operations over the next two years and end 2022 with \$67.1 million in cash.

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 our expected earnings growth (excludes potential acquisitions). We applied a multiple of 21X (unchanged) to our 2022 EPS projection of \$3.08 to obtain a year-ahead value of approximately \$65.00 per share.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2022 P/E	Projected EPS Growth to 2022
Atrion Corp	ATRI	631.62	1,120	35.9	NMF	NMF
Lantheus Holdings Inc	LNTH	21.98	1,490	NMF	24.6	37%
DMC Global Inc	BOOM	56.76	868	NMF	29.3	NMF
Surmodics Inc	SRDX	55	751	106.5	10.7	NMF
OraSure Technologies Inc	OSUR	9.8	707	NMF	18.1	-2%
Cutera Inc	CUTR	31.31	548	NMF	62.5	NMF
Meridian Bioscience Inc	VIVO	18.99	827	12.7	16.1	-23%
Lydall Inc	LDL	38.47	702	NMF	19.6	22%
CECO Environmental Corp	CECE	7.33	254	31.8	11.2	24%
SeaSpine Holdings Corp	SPNE	21.12	729	NMF	NMF	27%
Accuray Inc	ARAY	4.54	421	96.8	72.2	NMF
Hurco Companies Inc	HURC	34.06	225	NMF	NMF	NMF
Graham Corp	GHM	14.6	139	56.6	26.5	87%
Harvard Bioscience Inc	HBIO	6.75	294	NMF	17.7	35%
Peer Average				56.7	28.0	26%
Company						
UFP Technologies	UFPT	55.32	415	30.7	18.0	34%

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 2020, approximately 67% of UFPT’s sales were to the medical device industry with the remaining industries accounting for between 3.4% (electronics) to 10.2% (consumer) of sales.

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



Industry Outlook

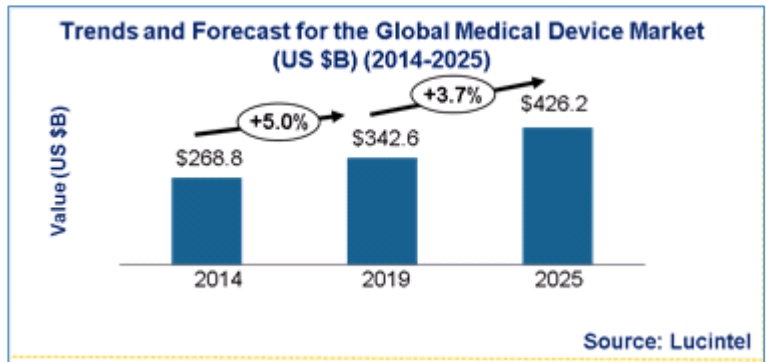
We will focus our industry outlook discussion on the medical market as UFPT’s sales are predominantly to this end market.

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 3% to \$54.5 billion in 2025 from 2020.

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 2025, resulting in annualized growth of 3.1% 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.

Lucintel estimates the global medical device market to grow from \$342.6 billion in 2019 to \$426.2 billion by 2025 for a CAGR of 3.7% (see chart at right). Lucintel expected the market to decline in 2020 due to the global economic recession led by COVID-19. However, the market should witness a recovery starting in 2021. Similar to the reasons above, Lucintel said that market growth will be driven by increasing healthcare expenditure, technological development, a growing aging population, and chronic diseases.



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 33% 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 April 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 6% for 2021 and 4.4% for 2022. In January 2021, the IMF predicted GDP growth of 5.5% for 2021 and 4.2% for 2022. The 2021 upward revision primarily reflects additional fiscal policy support in a few large economies and an anticipated vaccine-powered recovery in 2H21.

The IMF revised its economic growth estimate for the US to an increase of 6.4% for 2021 and 3.5% for 2022. In January 2021, the IMF projected US economic growth of 5.1% for 2021 and 2.5% for 2022.

The advance estimate of US GDP growth (released on April 29, 2021) showed the US economy increased at an annual rate of 6.4% in 1Q21, up from the 4.3% increase reported in 4Q20. The 1Q21 US GDP estimate primarily reflects increases in consumer spending, business investment, government spending and housing investment, partially offset by decreases in inventory investment and exports.

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

The COVID-19 pandemic adversely impacted UFPT's operations in 2020. Elective medical procedures and exams were delayed or canceled and there was a significant reduction in physician office visits as well as hospitals postponing or canceling capital purchases which reduced demand for the company's components for medical devices. Many of UFPT's customers in the automotive markets experienced closures of their businesses in connection with the pandemic which reduced demand for the company's automobile component products, particularly in 2Q20.

In response to the economic uncertainties resulting from the COVID-19 pandemic, the company initiated in 2020 and is continuing in 2021 certain cost-cutting measures, including travel restrictions and labor reductions.

As pandemic conditions ease, we believe growth should resume and project 7.9% revenue growth in 2021 and 10% growth in 2022.

2021 Forecast

For 2021, we project a 7.9% increase in revenue to \$193.6 million and net income of \$17.4 million or \$2.30 per share. We previously projected revenue of \$188.4 million and net income of \$16.6 million or \$2.19 per share. The change in our projections primarily reflects 1Q21 results.

We project gross margins increasing to 27% from 24.9% in 2020 due primarily to increased manufacturing overhead coverage and growth in higher margin medical sales.

SG&A expenses should increase to \$29.4 million from \$27.5 million in 2020 due primarily to increased compensation costs. SG&A margins should decrease to 15.2% from 15.3% in 2020. We project a 37.1% increase in operating income to \$22.9 million with margins increasing to 11.8% from 9.3%. Our tax rate forecast is 24.2%.

In 2021, we project \$23.9 million cash from operations on cash earnings of \$27.7 million and a \$3.8 million increase in working capital primarily due to an increase in receivables and inventories. We project an \$18.7 million increase in cash to \$42.9 million at the end of 2021 after \$5 million of capital expenditures.

2022 Forecast

For 2022, we project a 10% increase in revenue to \$213 million and net income of \$23.3 million or \$3.08 per share. We previously projected revenue of \$208 million and net income of \$22.1 million or \$2.92 per share. The change in our projections primarily reflects growth in medical market sales.

We project gross margins increasing to 28.7% from 27% in 2021 due primarily to increased manufacturing overhead coverage and growth in higher margin medical sales.

SG&A expenses should increase to \$30.1 million from an estimated \$29.4 million in 2021 due primarily to increased compensation costs. SG&A margins should decrease to 14.1% from 15.2% in 2021. We project a 35.7% increase in operating income to \$31.1 million with margins increasing to 14.6% from 11.8%. Our tax rate forecast is 25%.

In 2022, we project \$29.5 million cash from operations on cash earnings of \$33.2 million and a \$3.6 million increase in working capital primarily due to an increase in receivables and inventories. We project a \$24.2 million increase in cash to \$67.1 million at the end of 2022 after \$5 million of capital expenditures.

1Q21 Financial Results

1Q21 - Sales increased 0.7% to \$48.6 million with net income of \$4.2 million or \$0.55 per share, up from \$3.9 million or \$0.52 per share in 1Q20. We projected 1Q21 net sales of \$44.4 million and net income of \$2.9 million or \$0.39 per share.

Sales growth was primarily attributable to increases in sales to customers in the aerospace & defense and consumer markets of 68.2% and 62.1%, respectively, partially offset by a decrease in sales to customers in the medical market of 11.5%.

Gross profit decreased 1.7% to \$12.6 million from \$12.8 million and gross margins decreased to 25.9% from 26.6% in 1Q20 due primarily to product mix (reduced sales of higher margin medical products). SG&A expenses decreased 5.7% to \$7.3 million from \$7.8 million due primarily to labor reductions as well as decreases in company-wide travel and entertainment. Operating income increased to \$5.3 million or 10.9% of sales from \$5.1 million or 10.5% of sales in the year-ago period.

Non-operating expense was \$6,000 compared to \$343,000. Interest expense was unchanged at \$16,000 while other income was \$10,000 versus an expense of \$327,000 in the year-ago period. The company had an effective income tax rate of 21.4%.

Liquidity

At March 31, 2021, the company had \$25.4 million cash, a current ratio of 7.2X, tangible equity of \$109.6 million or \$14.51 per share, and no debt.

In 1Q21, cash provided by operations was \$3.3 million consisting of \$7 million cash earnings and a \$3.7 million increase in working capital. The increase in working capital was due primarily to an increase in receivables. Cash from operations covered capital expenditures of \$1.4 million and a \$738,000 payment of statutory withholdings for restricted stock resulting in a \$1.1 million increase in cash to \$25.4 million at March 31, 2021.

On December 31, 2020, the company entered into an unsecured \$70 million amended and restated credit agreement with Bank of America that matures on December 31, 2025. 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 March 31, 2021, the applicable interest rate was approximately 1.1% and the company was in compliance with all covenants.

Risks

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

Pandemic concerns – 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.

Dependence on a small number of customers

The company's top ten customers represented approximately 38% of total revenues in 2020. 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 32,000 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>2018A</u>	<u>2019A</u>	<u>2020A</u>	<u>3/21A</u>	<u>2021E</u>	<u>2022E</u>
Cash and cash equivalents	3,238	3,743	24,234	25,377	42,895	67,125
Receivables	28,321	28,648	26,428	30,018	28,502	31,358
Inventories	19,576	18,276	18,642	20,016	20,186	21,682
Prepaid expenses	2,206	2,304	2,560	2,630	2,630	2,630
Refundable income taxes	<u>2,285</u>	<u>279</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	55,626	53,250	71,864	78,041	94,213	122,796
Net property, plant and equipment	57,667	56,739	53,755	53,649	52,331	50,780
Goodwill	51,838	51,838	51,838	51,838	51,838	51,838
Intangible assets	22,232	20,975	19,718	19,404	18,461	17,204
Other assets	<u>2,235</u>	<u>5,956</u>	<u>6,029</u>	<u>6,248</u>	<u>6,248</u>	<u>6,248</u>
Total assets	<u>189,598</u>	<u>188,758</u>	<u>203,204</u>	<u>209,180</u>	<u>223,091</u>	<u>248,866</u>
Current portion of long-term debt	2,857	-	-	-	-	-
Deferred revenue	2,507	2,574	1,887	1,763	1,763	1,763
Accounts payable	6,836	4,577	4,121	5,977	4,318	4,638
Finance lease liabilities	-	-	15	15	15	15
Operating lease liabilities	-	674	1,154	1,189	1,189	1,189
Income taxes payable	-	-	16	863	-	-
Accrued expenses	<u>8,458</u>	<u>8,483</u>	<u>7,944</u>	<u>6,861</u>	<u>8,574</u>	<u>9,433</u>
Total current liabilities	20,658	16,308	15,137	16,668	15,859	17,038
Long-term debt	22,286	-	-	-	-	-
Deferred income taxes	4,129	4,921	5,057	5,336	5,336	5,336
Finance lease liabilities	-	-	86	82	75	64
Operating lease liabilities	-	2,416	950	975	975	975
Other liabilities	<u>2,068</u>	<u>3,122</u>	<u>5,081</u>	<u>5,300</u>	<u>5,300</u>	<u>5,300</u>
Total liabilities	49,141	26,767	26,311	28,361	27,545	28,713
Total stockholders' equity	<u>140,457</u>	<u>161,991</u>	<u>176,893</u>	<u>180,819</u>	<u>195,546</u>	<u>220,153</u>
Total liabilities & stockholders' equity	<u>189,598</u>	<u>188,758</u>	<u>203,204</u>	<u>209,180</u>	<u>223,091</u>	<u>248,866</u>

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Annual Income Statements
(in thousands \$)

	<u>2018A</u>	<u>2019A</u>	<u>2020A</u>	<u>2021E</u>	<u>2022E</u>
Net sales	190,455	198,381	179,373	193,599	213,000
Cost of sales	<u>142,147</u>	<u>144,422</u>	<u>134,689</u>	<u>141,303</u>	<u>151,774</u>
Gross profit	48,308	53,959	44,684	52,297	61,226
Extraordinary items	938	-	459	-	-
SG&A	<u>27,758</u>	<u>29,251</u>	<u>27,493</u>	<u>29,359</u>	<u>30,100</u>
Operating income	19,612	24,708	16,732	22,938	31,126
Non-operating (expenses) income	<u>(1,209)</u>	<u>(1,062)</u>	<u>(449)</u>	<u>(6)</u>	<u>-</u>
Income before taxes	18,403	23,646	16,283	22,932	31,126
Income tax (benefit)	<u>4,092</u>	<u>3,896</u>	<u>2,914</u>	<u>5,540</u>	<u>7,782</u>
Net Income / (Loss)	<u>14,311</u>	<u>19,750</u>	<u>13,369</u>	<u>17,391</u>	<u>23,345</u>
EPS	<u>1.93</u>	<u>2.63</u>	<u>1.77</u>	<u>2.30</u>	<u>3.08</u>
Shares Outstanding	7,430	7,516	7,568	7,570	7,570
<u>Margin Analysis</u>					
Gross margin	25.4%	27.2%	24.9%	27.0%	28.7%
SG&A	14.6%	14.7%	15.3%	15.2%	14.1%
Operating margin	10.3%	12.5%	9.3%	11.8%	14.6%
Pretax margin	9.7%	11.9%	9.1%	11.8%	14.6%
Tax rate	22.2%	16.5%	17.9%	24.2%	25.0%
<u>Year / Year Growth</u>					
Total Revenues	28.8%	4.2%	(9.6)%	7.9%	10.0%
Net Income	55.4%	38.0%	(32.3)%	30.1%	34.2%
EPS	53.4%	36.4%	(32.8)%	30.1%	34.2%

Source: Company filings and Taglich Brothers' estimates

UFP Technologies, Inc.

Quarterly Income Statements 2020A - 2022E
(in thousands \$)

	<u>3/20A</u>	<u>6/20A</u>	<u>9/20A</u>	<u>12/20A</u>	<u>2020A</u>	<u>3/21A</u>	<u>6/21E</u>	<u>9/21E</u>	<u>12/21E</u>	<u>2021E</u>	<u>3/22E</u>	<u>6/22E</u>	<u>9/22E</u>	<u>12/22E</u>	<u>2022E</u>
Net sales	48,277	42,644	43,299	45,153	179,373	48,599	46,500	47,500	51,000	193,599	49,500	52,500	54,000	57,000	213,000
Cost of sales	<u>35,454</u>	<u>32,695</u>	<u>32,771</u>	<u>33,769</u>	<u>134,689</u>	<u>35,990</u>	<u>34,410</u>	<u>34,438</u>	<u>36,465</u>	141,303	<u>35,516</u>	<u>37,380</u>	<u>38,408</u>	<u>40,470</u>	151,774
Gross profit	12,823	9,949	10,528	11,384	44,684	12,609	12,090	13,063	14,535	52,297	13,984	15,120	15,593	16,530	61,226
Extraordinary items	(4)	290	12	160	459	-	-	-	-	-	-	-	-	-	-
SG&A	<u>7,752</u>	<u>6,665</u>	<u>6,791</u>	<u>6,287</u>	<u>27,493</u>	<u>7,309</u>	<u>7,300</u>	<u>7,350</u>	<u>7,400</u>	29,359	<u>7,450</u>	<u>7,500</u>	<u>7,550</u>	<u>7,600</u>	30,100
Operating income	5,075	2,994	3,725	4,937	16,732	5,300	4,790	5,713	7,135	22,938	6,534	7,620	8,043	8,930	31,126
Non-operating (expenses) income	<u>(343)</u>	<u>(68)</u>	<u>(17)</u>	<u>(21)</u>	<u>(449)</u>	<u>(6)</u>	-	-	-	(6)	-	-	-	-	-
Income before taxes	4,732	2,926	3,708	4,916	16,283	5,294	4,790	5,713	7,135	22,932	6,534	7,620	8,043	8,930	31,126
Income tax (benefit)	<u>841</u>	<u>608</u>	<u>720</u>	<u>744</u>	<u>2,914</u>	<u>1,131</u>	<u>1,198</u>	<u>1,428</u>	<u>1,784</u>	5,540	<u>1,633</u>	<u>1,905</u>	<u>2,011</u>	<u>2,233</u>	7,782
Net Income / (Loss)	<u>3,891</u>	<u>2,318</u>	<u>2,988</u>	<u>4,172</u>	<u>13,369</u>	<u>4,163</u>	<u>3,593</u>	<u>4,284</u>	<u>5,351</u>	17,391	<u>4,900</u>	<u>5,715</u>	<u>6,032</u>	<u>6,698</u>	23,345
EPS	<u>0.52</u>	<u>0.31</u>	<u>0.40</u>	<u>0.55</u>	<u>1.77</u>	<u>0.55</u>	<u>0.47</u>	<u>0.57</u>	<u>0.71</u>	2.30	<u>0.65</u>	<u>0.75</u>	<u>0.80</u>	<u>0.88</u>	3.08
Shares Outstanding	7,538	7,532	7,555	7,574	7,568	7,570	7,570	7,570	7,570	7,570	7,570	7,570	7,570	7,570	7,570
<u>Margin Analysis</u>															
Gross margin	26.6%	23.3%	24.3%	25.2%	24.9%	25.9%	26.0%	27.5%	28.5%	27.0%	28.3%	28.8%	28.9%	29.0%	28.7%
SG&A	16.1%	15.6%	15.7%	13.9%	15.3%	15.0%	15.7%	15.5%	14.5%	15.2%	15.1%	14.3%	14.0%	13.3%	14.1%
Operating margin	10.5%	7.0%	8.6%	10.9%	9.3%	10.9%	10.3%	12.0%	14.0%	11.8%	13.2%	14.5%	14.9%	15.7%	14.6%
Pretax margin	9.8%	6.9%	8.6%	10.9%	9.1%	10.9%	10.3%	12.0%	14.0%	11.8%	13.2%	14.5%	14.9%	15.7%	14.6%
Tax rate	17.8%	20.8%	19.4%	15.1%	17.9%	21.4%	25.0%	25.0%	25.0%	24.2%	25.0%	25.0%	25.0%	25.0%	25.0%
<u>Year / Year Growth</u>															
Total Revenues	2.0%	(17.0)%	(12.3)%	(10.2)%	(9.6)%	0.7%	9.0%	9.7%	12.9%	7.9%	1.9%	12.9%	13.7%	11.8%	10.0%
Net Income	4.2%	(49.6)%	(47.0)%	(27.8)%	(32.3)%	7.0%	55.0%	43.4%	28.3%	30.1%	17.7%	59.1%	40.8%	25.2%	34.2%
EPS	3.2%	(50.0)%	(47.5)%	(28.1)%	(32.8)%	6.5%	54.2%	43.1%	28.3%	30.1%	17.7%	59.1%	40.8%	25.2%	34.2%

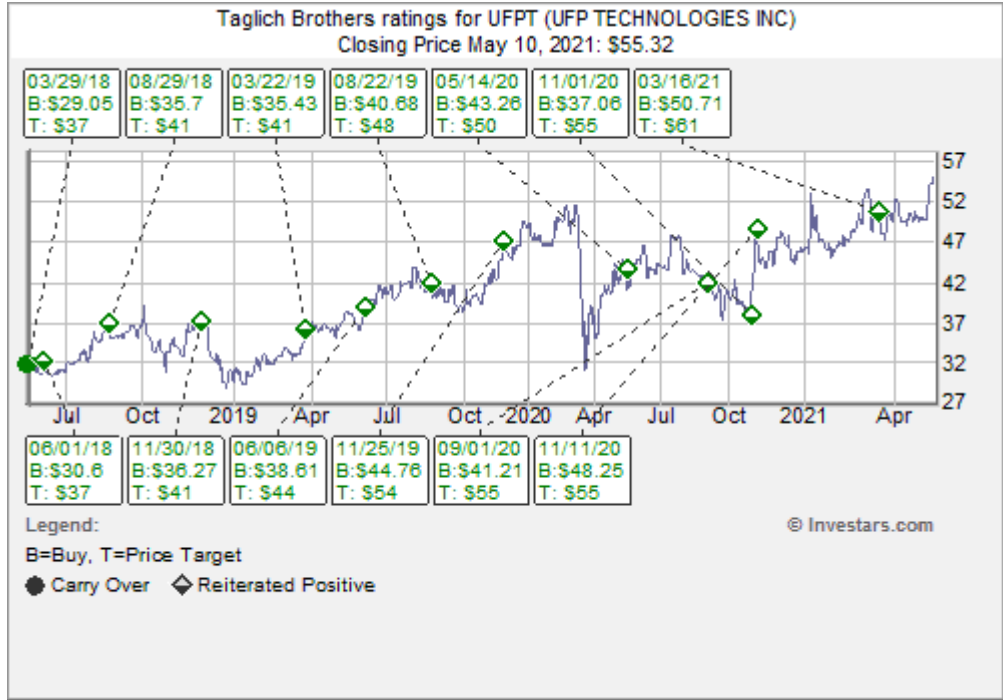
Source: Company filings and Taglich Brothers' estimates

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

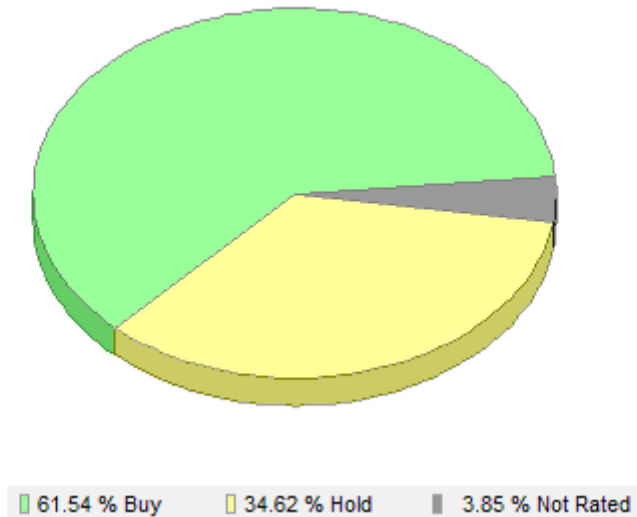
	<u>2018A</u>	<u>2019A</u>	<u>2020A</u>	<u>3M21A</u>	<u>2021E</u>	<u>2022E</u>
Net income	14,311	19,750	13,369	4,163	17,391	23,345
Depreciation & amortization	7,831	8,172	8,268	2,069	8,022	7,808
(Gain) loss on disposal of property, plant and equipment	(47)	-	459	-	-	-
Share-based compensation	1,212	1,591	1,807	501	2,000	2,000
Interest expense on finance leases	-	-	2	-	-	-
Deferred income taxes	<u>1,881</u>	<u>792</u>	<u>136</u>	<u>279</u>	279	-
Cash earnings	25,188	30,305	24,041	7,012	27,692	33,153
<i>Changes in assets and liabilities</i>						
Receivables	(2,556)	(327)	2,220	(3,590)	(2,074)	(2,856)
Inventories	(2,295)	1,300	(366)	(1,374)	(1,544)	(1,496)
Prepaid expenses	(249)	(98)	(256)	(70)	(70)	-
Refundable income taxes	(1,268)	2,006	295	-	-	-
Other assets	(76)	110	(73)	(219)	(219)	-
Accounts payable	1,113	(2,472)	(681)	1,656	197	320
Accrued expenses and other	1,472	25	(539)	(1,083)	630	859
Deferred revenue	35	67	(687)	(124)	(124)	-
Other liabilities	<u>(44)</u>	<u>313</u>	<u>1,083</u>	<u>1,126</u>	(552)	(474)
(Increase) decrease in working capital	(3,868)	924	996	(3,678)	(3,757)	(3,647)
Net Cash Provided by Operations	21,320	31,229	25,037	3,334	23,936	29,506
Additions to property, plant and equipment	(5,428)	(5,778)	(4,368)	(1,449)	(5,000)	(5,000)
Cash paid for acquisitions (net)	(76,978)	-	-	-	-	-
Proceeds from sale of fixed assets	<u>77</u>	<u>4</u>	<u>107</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Used in Investing	(82,329)	(5,774)	(4,261)	(1,449)	(5,000)	(5,000)
Proceeds from line of credit	36,000	-	5,500	-	-	-
Payments on line of credit	(28,000)	(8,000)	(5,500)	-	-	-
Proceeds from long-term borrowings	20,000	-	-	-	-	-
Principal payments on finance lease obligation	-	-	(11)	(4)	(11)	(11)
Proceeds from exercise of stock options	1,270	705	474	-	474	474
Payment of statutory withholdings for restricted stock	(144)	(512)	(748)	(738)	(738)	(738)
Principal repayments of long-term debt	<u>(2,857)</u>	<u>(17,143)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by (Used in) Financing	26,269	(24,950)	(285)	(742)	(275)	(275)
Net Change in Cash	(34,740)	505	20,491	1,143	18,661	24,231
Cash - Beginning of Period	37,978	3,238	3,743	24,234	24,234	42,895
Cash - End of Period	<u>3,238</u>	<u>3,743</u>	<u>24,234</u>	<u>25,377</u>	<u>42,895</u>	<u>67,125</u>

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	3	16
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.