

Research Report – Update

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

UFP Technologies, Inc.

Rating: Buy

John Nobile

August 17, 2021

UFPT \$62.32 — (NASDAQ)

	2019A	2020A	2021E	2022E
Revenues (millions)	\$198.4	\$179.4	\$198.3	\$218.1
Earnings per share (diluted)	\$2.63	\$1.77	\$2.42	\$3.25

52-Week range	\$69.46 – \$36.69	Fiscal year ends:	December
Shares outstanding as of 7/30/21	7.5 million	Revenue per share (TTM)	\$24.80
Approximate float	6.4 million	Price/Sales (TTM)	2.5X
Market capitalization	\$467 million	Price/Sales (2022)E	2.2X
Tangible book value/share	\$15.26	Price/Earnings (TTM)	29.4X
Price/tangible book	4.1X	Price/Earnings (2022)E	19.2X

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 \$78.00 per share from \$65.00 based on our increased 2022 EPS forecast and expanded peer multiples.

The COVID-19 pandemic adversely impacted UFPT's operations in 2020. Elective medical procedures and exams were delayed or canceled which reduced demand for the company's components for medical devices. While UFPT's medical market sales returned to growth in 2Q21, and our outlook remains optimistic, delays in scheduling elective medical procedures and exams are still present.

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

The company has a strong balance sheet and the cash to make strategic acquisitions. As of June 30, 2021, UFPT had \$30.3 million cash, shareholder's equity of \$186.3 million, and no debt. We project the company will generate approximately \$54 million in cash from operations over the next two years and end 2022 with \$65.4 million in cash.

2Q21 sales (10Q released on 8/6/21) increased 18.8% to \$50.7 million with EPS of \$0.62, up from \$0.31 in 2Q20. We projected 2Q21 net sales of \$46.5 million and EPS of \$0.47.

For 2021, we project a 10.5% increase in revenue to \$198.3 million and EPS of \$2.42. We previously projected revenue of \$193.6 million and EPS of \$2.30. Our revised projections primarily reflect 2Q21 results.

For 2022, we project a 10% increase in revenue to \$218.1 million and EPS of \$3.25. We previously projected revenue of \$213 million and EPS of \$3.08. The increase 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 \$78.00 per share from \$65.00 based on our increased 2022 EPS forecast and expanded peer multiples.

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. While UFPT’s medical market sales returned to growth in 2Q21, and our outlook remains optimistic, delays in scheduling elective medical procedures and exams are still present.

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

The company has a strong balance sheet and the cash to make strategic acquisitions. As of June 30, 2021, UFPT had \$30.3 million cash, shareholder’s equity of \$186.3 million, and no debt. We project the company will generate approximately \$54 million in cash from operations over the next two years and end 2022 with \$65.4 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 24X (up from 21X as peer forward multiples have increased to 35.1X from 28X previously) to our 2022 EPS projection of \$3.25 to obtain a year-ahead value of \$78.00 per share.

Name	Symbol	Price	Market Cap \$M	Trailing P/E	2022 P/E	Projected EPS Growth to 2022
Atrion Corp	ATRI	640	1,120	37.5	NMF	NMF
Lantheus Holdings Inc	LNTH	25.48	1,750	NMF	28.9	NMF
DMC Global Inc	BOOM	41.32	760	NMF	29.8	NMF
Surmodics Inc	SRDX	53.2	765	NMF	58.2	NMF
OraSure Technologies Inc	OSUR	10.86	809	NMF	47.2	NMF
Cutera Inc	CUTR	49.73	886	NMF	65.9	28%
Meridian Bioscience Inc	VIVO	19.95	896	10.0	16.3	-29%
Lydall Inc	LDL	61.65	1,110	NMF	29.4	14%
CECO Environmental Corp	CECE	6.86	236	80.7	11.7	41%
SeaSpine Holdings Corp	SPNE	15.27	597	NMF	NMF	23%
Accuray Inc	ARAY	3.69	380	77.6	57.9	NMF
Hurco Companies Inc	HURC	33.83	226	NMF	NMF	NMF
Graham Corp	GHM	12.31	138	54.0	19.2	100%
Harvard Bioscience Inc	HBIO	8.44	342	NMF	21.9	26%
Peer Average				52.0	35.1	29%
Company						
UFP Technologies	UFPT	62.32	467	29.4	19.2	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.

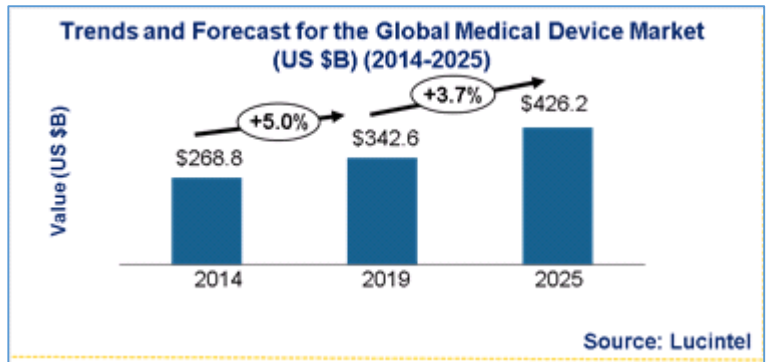
The future of the global medical device market looks to have opportunities in the hospital and homecare sectors. ResearchandMarkets projects the global medical device market to reach an estimated \$432.6 billion by 2025, growing at a compound annual growth rate (CAGR) of 4.1% from 2020 to 2025. Similar 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 top right on next page). 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 July 2021, the International Monetary Fund (IMF) revised its global economic growth estimates to an increase of 6% for 2021 and 4.9% for 2022. While the IMF’s growth projection for 2021 is unchanged from its earlier projection (April 2021), the 2022 projection is up from 4.4%. The 2022 upward revision primarily reflects additional fiscal policy support in advanced economies in 2H21 and improved health metrics across the group.

The IMF revised its economic growth estimate for the US to an increase of 7% for 2021 and 4.9% for 2022. In April 2021, the IMF projected US economic growth of 6.4% for 2021 and 3.5% for 2022.

The advance estimate of US GDP growth (released on July 29, 2021) showed the US economy increased at an annual rate of 6.5% in 2Q21, up from the 6.3% increase reported in 1Q21. The 2Q21 US GDP estimate primarily reflects increases in consumer spending, business investment, exports, and state and local government spending, partially offset by decreases in inventory investment, housing investment, and federal government spending.

Competition

The medical contract manufacturing industry is highly competitive as is the foam and plastics converting industry. While there are several national companies that convert foam and plastics, the company’s primary competition is from smaller independent regional manufacturing companies that generally market their products in specific geographic areas from neighboring facilities.

UFPT’s foam and fiber packaging products compete against products made from alternative materials, including expanded polystyrene foams, die-cut corrugated, plastic peanuts, plastic bubbles, and foam-in-place urethane. The company’s custom engineered products face competition primarily from smaller companies that typically concentrate on production of products for specific industries.

Some of UFPT’s strengths in the engineered products market are its ability to address its customers’ primary vendor selection criteria, including price, product performance, product reliability, and customer service. Other competitive factors include the company’s access to a wide variety of materials, its engineering expertise, and its ability to combine foams with other materials such as plastics and laminates.

Projections

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. While UFPT’s medical market sales returned to growth in 2Q21, and our outlook remains optimistic, delays in scheduling elective medical procedures and exams are still present.

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

2021 Forecast

For 2021, we project a 10.5% increase in revenue to \$198.3 million and net income of \$18.3 million or \$2.42 per share. We previously projected revenue of \$193.6 million and net income of \$17.4 million or \$2.30 per share. Our revised projections primarily reflect 2Q21 results.

We project gross margins increasing to 26.9% 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 \$29.2 million from \$27.5 million in 2020 to support increased business. SG&A margins should decrease to 14.7% from 15.3% in 2020. We project a 44% increase in operating income to \$24.1 million with margins increasing to 12.2% from 9.3%. Our tax rate forecast is 24%.

In 2021, we project \$23.6 million cash from operations on cash earnings of \$29 million and a \$5.4 million increase in working capital primarily due to an increase in receivables. We project a \$17.2 million increase in cash to \$41.4 million at the end of 2021 after \$6 million of capital expenditures.

2022 Forecast

For 2022, we project a 10% increase in revenue to \$218.1 million and net income of \$24.6 million or \$3.25 per share. We previously projected revenue of \$213 million and net income of \$23.3 million or \$3.08 per share. The increase in our projections primarily reflects growth in medical market sales.

We project gross margins increasing to 28.7% from 26.9% in 2021 due primarily to increased manufacturing overhead coverage and growth in higher margin medical sales.

SG&A expenses should increase to \$29.9 million from an estimated \$29.2 million in 2021 to support increased sales. SG&A margins should decrease to 13.7% from 14.7% in 2021. We project a 36% increase in operating income to \$32.8 million with margins increasing to 15% from 12.2%. Our tax rate forecast is 25%.

In 2022, we project \$30.4 million cash from operations on cash earnings of \$34.4 million and a \$4 million increase in working capital primarily due to an increase in receivables and inventories. We project a \$24 million increase in cash to \$65.4 million at the end of 2022 after \$6 million of capital expenditures.

2Q and 1H21 Financial Results

2Q21 - Sales increased 18.8% to \$50.7 million with net income of \$4.7 million or \$0.62 per share, up from \$2.3 million or \$0.31 per share in 2Q20. We projected 2Q21 net sales of \$46.5 million and net income of \$3.6 million or \$0.47 per share.

Sales growth was primarily attributable to increases in sales to customers in the automotive, consumer, and aerospace & defense markets of 146%, 88.2%, and 40.7%, respectively.

Gross profit increased 34.8% to \$13.4 million from \$9.9 million and gross margins increased to 26.5% from 23.3% in 2Q20 due primarily to greater manufacturing overhead coverage. SG&A expenses increased 8.4% to \$7.2 million from \$6.7 million due primarily to increases in discretionary compensation, as well as increases in company-wide travel and entertainment. Operating income increased to \$6.2 million or 12.3% of sales from \$3 million or 7% of sales in the year-ago period.

Non-operating income was \$17,000 compared to an expense of \$68,000. Interest income was 21,000 versus an expense of 33,000 while other expense was \$4,000 versus \$35,000 in the year-ago period. The company had an effective income tax rate of 24.2%.

1H21 - Sales increased 9.2% to \$99.3 million with net income of \$8.9 million or \$1.17 per share, up from \$6.2 million or \$0.82 per share in 1H20.

Sales growth was primarily attributable to increases in sales to customers in the automotive, consumer, and aerospace & defense markets of 35.7%, 74.4%, and 50.1%, respectively, partly offset by a decrease in sales to customers in the medical market of 4% due to the deferral of elective medical procedures.

Gross profit increased 14.3% to \$26 million from \$22.8 million and gross margins increased to 26.2% from 25% in 1H20 due primarily to greater manufacturing overhead coverage. SG&A expenses were relatively flat at \$14.5 million. Operating income increased to \$11.5 million or 11.6% of sales from \$8.1 million or 8.9% of sales in the year-ago period.

Non-operating income was \$12,000 compared to an expense of \$411,000. Interest income was \$5,000 versus an expense of \$49,000 while other income was \$7,000 versus an expense of \$625,000 in the year-ago period. The company had an effective income tax rate of 22.9%.

Liquidity

At June 30, 2021, the company had \$30.3 million cash, a current ratio of 4.4X, tangible equity of \$115.4 million or \$15.32 per share, and no debt.

In 1H21, cash provided by operations was \$9.9 million consisting of \$14.5 million cash earnings and a \$4.6 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 \$3.3 million and a \$740,000 payment of statutory withholdings for restricted stock resulting in a \$6 million increase in cash to \$30.3 million at June 30, 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 June 30, 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.

Income Statement (in thousands \$)		
	6M21A	6M20A
Net sales	99,254	90,921
Cost of sales	73,231	68,148
Gross profit	26,023	22,773
Extraordinary items	(21)	286
SG&A	14,538	14,417
Operating income	11,506	8,070
Interest exp, other inc and exp	12	(411)
Income before taxes	11,518	7,659
Income tax	2,640	1,450
Net Income / (Loss)	8,878	6,209
EPS	1.17	0.82
Shares Outstanding	7,575	7,545
<u>Margin Analysis</u>		
Gross margin	26.2%	25.0%
SG&A	14.6%	15.9%
Operating margin	11.6%	8.9%
Tax rate	22.9%	18.9%
<u>Year / Year Growth</u>		
Total Revenues	9.2%	
Net Income	43.0%	
EPS	42.4%	
Source: Company filings		

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 6.4 million in the float, liquidity issues must be considered. Average daily volume has been approximately 18,000 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>6/21A</u>	<u>2021E</u>	<u>2022E</u>
Cash and cash equivalents	3,238	3,743	24,234	30,273	41,411	65,379
Receivables	28,321	28,648	26,428	31,222	31,390	34,533
Inventories	19,576	18,276	18,642	21,160	21,323	22,856
Prepaid expenses	2,206	2,304	2,560	2,957	2,957	2,957
Refundable income taxes	<u>2,285</u>	<u>279</u>	<u>-</u>	<u>854</u>	<u>854</u>	<u>854</u>
Total current assets	55,626	53,250	71,864	86,466	97,935	126,578
Net property, plant and equipment	57,667	56,739	53,755	53,695	53,008	52,457
Goodwill	51,838	51,838	51,838	51,838	51,838	51,838
Intangible assets	22,232	20,975	19,718	19,090	18,461	17,204
Other assets	<u>2,235</u>	<u>5,956</u>	<u>6,029</u>	<u>6,197</u>	<u>6,197</u>	<u>6,197</u>
Total assets	<u>189,598</u>	<u>188,758</u>	<u>203,204</u>	<u>217,286</u>	<u>227,439</u>	<u>254,274</u>
Current portion of long-term debt	2,857	-	-	-	-	-
Deferred revenue	2,507	2,574	1,887	1,903	1,903	1,903
Accounts payable	6,836	4,577	4,121	8,355	8,055	8,635
Finance lease liabilities	-	-	15	15	15	15
Operating lease liabilities	-	674	1,154	1,174	568	217
Income taxes payable	-	-	16	-	-	-
Accrued expenses	<u>8,458</u>	<u>8,483</u>	<u>7,944</u>	<u>8,192</u>	<u>8,780</u>	<u>9,659</u>
Total current liabilities	20,658	16,308	15,137	19,639	19,322	20,429
Long-term debt	22,286	-	-	-	-	-
Deferred income taxes	4,129	4,921	5,057	5,440	5,440	5,440
Finance lease liabilities	-	-	86	78	69	52
Operating lease liabilities	-	2,416	950	703	703	281
Other liabilities	<u>2,068</u>	<u>3,122</u>	<u>5,081</u>	<u>5,112</u>	<u>5,112</u>	<u>5,112</u>
Total liabilities	<u>49,141</u>	<u>26,767</u>	<u>26,311</u>	<u>30,972</u>	<u>30,646</u>	<u>31,314</u>
Total stockholders' equity	<u>140,457</u>	<u>161,991</u>	<u>176,893</u>	<u>186,314</u>	<u>196,794</u>	<u>222,961</u>
Total liabilities & stockholders' equity	<u>189,598</u>	<u>188,758</u>	<u>203,204</u>	<u>217,286</u>	<u>227,439</u>	<u>254,274</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	198,254	218,100
Cost of sales	<u>142,147</u>	<u>144,422</u>	<u>134,689</u>	<u>144,996</u>	<u>155,423</u>
Gross profit	48,308	53,959	44,684	53,258	62,677
Extraordinary items	938	-	459	(21)	-
SG&A	<u>27,758</u>	<u>29,251</u>	<u>27,493</u>	<u>29,187</u>	<u>29,900</u>
Operating income	19,612	24,708	16,732	24,092	32,777
Non-operating (expenses) income	<u>(1,209)</u>	<u>(1,062)</u>	<u>(449)</u>	<u>11</u>	<u>-</u>
Income before taxes	18,403	23,646	16,283	24,103	32,777
Income tax (benefit)	<u>4,092</u>	<u>3,896</u>	<u>2,914</u>	<u>5,786</u>	<u>8,194</u>
Net Income / (Loss)	<u>14,311</u>	<u>19,750</u>	<u>13,369</u>	<u>18,317</u>	<u>24,583</u>
EPS	<u>1.93</u>	<u>2.63</u>	<u>1.77</u>	<u>2.42</u>	<u>3.25</u>
Shares Outstanding	7,430	7,516	7,568	7,572	7,573
<u>Margin Analysis</u>					
Gross margin	25.4%	27.2%	24.9%	26.9%	28.7%
SG&A	14.6%	14.7%	15.3%	14.7%	13.7%
Operating margin	10.3%	12.5%	9.3%	12.2%	15.0%
Pretax margin	9.7%	11.9%	9.1%	12.2%	15.0%
Tax rate	22.2%	16.5%	17.9%	24.0%	25.0%
<u>Year / Year Growth</u>					
Total Revenues	28.8%	4.2%	(9.6)%	10.5%	10.0%
Net Income	55.4%	38.0%	(32.3)%	37.0%	34.2%
EPS	53.4%	36.4%	(32.8)%	36.9%	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>6/21A</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	50,655	48,500	50,500	198,254	52,100	56,500	54,300	55,200	218,100
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>37,241</u>	<u>35,405</u>	<u>36,360</u>	<u>144,996</u>	<u>37,382</u>	<u>40,228</u>	<u>38,621</u>	<u>39,192</u>	<u>155,423</u>
Gross profit	12,823	9,949	10,528	11,384	44,684	12,609	13,414	13,095	14,140	53,258	14,718	16,272	15,679	16,008	62,677
Extraordinary items	(4)	290	12	160	459	-	(21)	-	-	(21)	-	-	-	-	-
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>7,228</u>	<u>7,300</u>	<u>7,350</u>	<u>29,187</u>	<u>7,400</u>	<u>7,450</u>	<u>7,500</u>	<u>7,550</u>	<u>29,900</u>
Operating income	5,075	2,994	3,725	4,937	16,732	5,300	6,207	5,795	6,790	24,092	7,318	8,822	8,179	8,458	32,777
Non-operating (expenses) income	<u>(343)</u>	<u>(68)</u>	<u>(17)</u>	<u>(21)</u>	<u>(449)</u>	<u>(6)</u>	<u>17</u>	<u>-</u>	<u>-</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income before taxes	4,732	2,926	3,708	4,916	16,283	5,294	6,224	5,795	6,790	24,103	7,318	8,822	8,179	8,458	32,777
Income tax (benefit)	<u>841</u>	<u>608</u>	<u>720</u>	<u>744</u>	<u>2,914</u>	<u>1,131</u>	<u>1,509</u>	<u>1,449</u>	<u>1,698</u>	<u>5,786</u>	<u>1,830</u>	<u>2,206</u>	<u>2,045</u>	<u>2,115</u>	<u>8,194</u>
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>4,715</u>	<u>4,346</u>	<u>5,093</u>	<u>18,317</u>	<u>5,489</u>	<u>6,617</u>	<u>6,134</u>	<u>6,344</u>	<u>24,583</u>
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>0.62</u>	<u>0.57</u>	<u>0.67</u>	<u>2.42</u>	<u>0.72</u>	<u>0.87</u>	<u>0.81</u>	<u>0.84</u>	<u>3.25</u>
Shares Outstanding	7,538	7,532	7,555	7,574	7,568	7,570	7,573	7,573	7,573	7,572	7,573	7,573	7,573	7,573	7,573
<u>Margin Analysis</u>															
Gross margin	26.6%	23.3%	24.3%	25.2%	24.9%	25.9%	26.5%	27.0%	28.0%	26.9%	28.3%	28.8%	28.9%	29.0%	28.7%
SG&A	16.1%	15.6%	15.7%	13.9%	15.3%	15.0%	14.3%	15.1%	14.6%	14.7%	14.2%	13.2%	13.8%	13.7%	13.7%
Operating margin	10.5%	7.0%	8.6%	10.9%	9.3%	10.9%	12.3%	11.9%	13.4%	12.2%	14.0%	15.6%	15.1%	15.3%	15.0%
Pretax margin	9.8%	6.9%	8.6%	10.9%	9.1%	10.9%	12.3%	11.9%	13.4%	12.2%	14.0%	15.6%	15.1%	15.3%	15.0%
Tax rate	17.8%	20.8%	19.4%	15.1%	17.9%	21.4%	24.2%	25.0%	25.0%	24.0%	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%	18.8%	12.0%	11.8%	10.5%	7.2%	11.5%	12.0%	9.3%	10.0%
Net Income	4.2%	(49.6)%	(47.0)%	(27.8)%	(32.3)%	7.0%	103.4%	45.5%	22.1%	37.0%	31.8%	40.3%	41.1%	24.6%	34.2%
EPS	3.2%	(50.0)%	(47.5)%	(28.1)%	(32.8)%	6.5%	102.3%	45.1%	22.1%	36.9%	31.8%	40.3%	41.1%	24.6%	34.2%

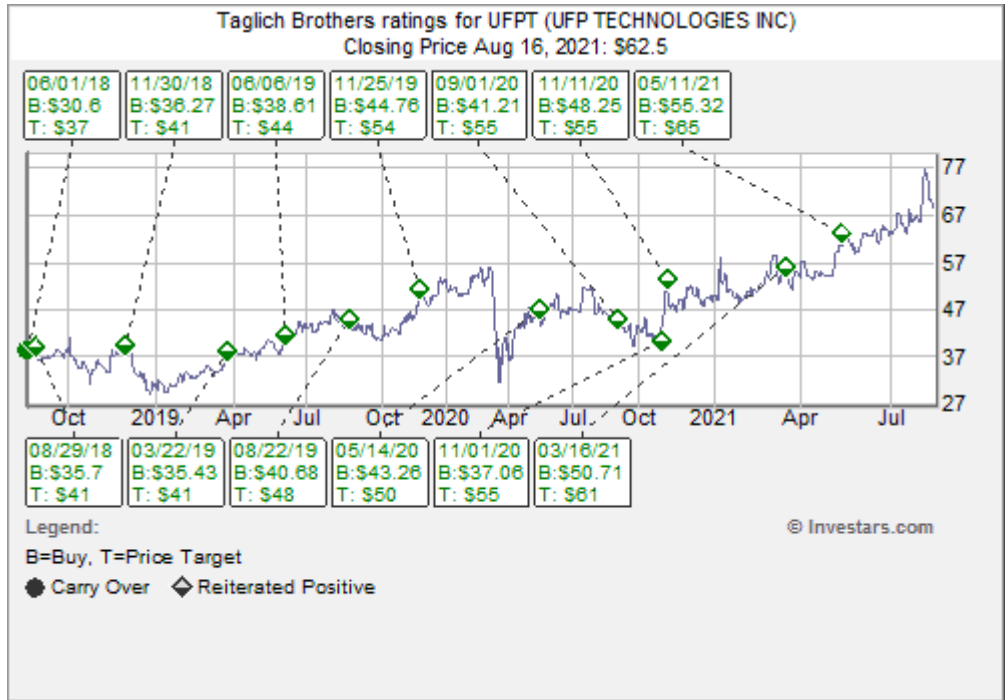
Source: Company filings and Taglich Brothers' estimates

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

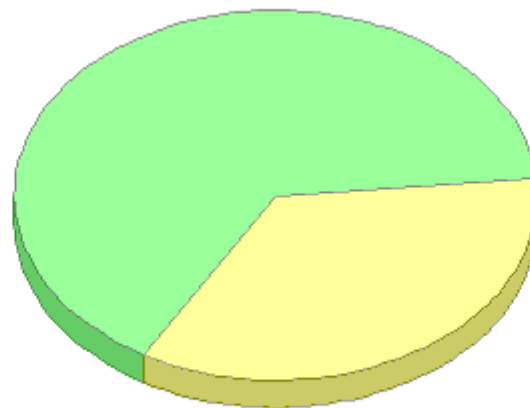
	<u>2018A</u>	<u>2019A</u>	<u>2020A</u>	<u>6M21A</u>	<u>2021E</u>	<u>2022E</u>
Net income	14,311	19,750	13,369	8,878	18,317	24,583
Depreciation & amortization	7,831	8,172	8,268	4,172	8,345	7,808
(Gain) loss on disposal of property, plant and equipment	(47)	-	459	(21)	(21)	-
Share-based compensation	1,212	1,591	1,807	1,121	2,000	2,000
Interest expense on finance leases	-	-	2	1	2	2
Deferred income taxes	<u>1,881</u>	<u>792</u>	<u>136</u>	<u>383</u>	383	-
Cash earnings	25,188	30,305	24,041	14,534	29,026	34,393
<i>Changes in assets and liabilities</i>						
Receivables	(2,556)	(327)	2,220	(4,794)	(4,962)	(3,142)
Inventories	(2,295)	1,300	(366)	(2,518)	(2,681)	(1,533)
Prepaid expenses	(249)	(98)	(256)	(397)	(397)	-
Refundable income taxes	(1,268)	2,006	295	(870)	(854)	-
Other assets	(76)	110	(73)	(168)	(168)	-
Accounts payable	1,113	(2,472)	(681)	4,032	3,934	579
Accrued expenses and other	1,472	25	(539)	248	836	879
Deferred revenue	35	67	(687)	16	16	-
Other liabilities	<u>(44)</u>	<u>313</u>	<u>1,083</u>	<u>(196)</u>	(1,160)	(775)
(Increase) decrease in working capital	(3,868)	924	996	(4,647)	(5,436)	(3,992)
Net Cash Provided by Operations	21,320	31,229	25,037	9,887	23,590	30,401
Additions to property, plant and equipment	(5,428)	(5,778)	(4,368)	(3,282)	(6,000)	(6,000)
Cash paid for acquisitions (net)	(76,978)	-	-	-	-	-
Proceeds from sale of fixed assets	<u>77</u>	<u>4</u>	<u>107</u>	<u>21</u>	21	-
Net Cash Used in Investing	(82,329)	(5,774)	(4,261)	(3,261)	(5,979)	(6,000)
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)	(9)	(18)	(17)
Proceeds from exercise of stock options	1,270	705	474	162	324	324
Payment of statutory withholdings for restricted stock	(144)	(512)	(748)	(740)	(740)	(740)
Principal repayments of long-term debt	<u>(2,857)</u>	<u>(17,143)</u>	-	-	-	-
Net Cash Provided by (Used in) Financing	26,269	(24,950)	(285)	(587)	(434)	(433)
Net Change in Cash	(34,740)	505	20,491	6,039	17,177	23,968
Cash - Beginning of Period	37,978	3,238	3,743	24,234	24,234	41,411
Cash - End of Period	<u>3,238</u>	<u>3,743</u>	<u>24,234</u>	<u>30,273</u>	<u>41,411</u>	<u>65,379</u>

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



65.22 % Buy | 34.78 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

Important Disclosures

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Analyst Certification

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

Public Companies Mentioned in this Report

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

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.