

Research Report – Update

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

Unique Fabricating, Inc.

Speculative Buy

John Nobile

November 25, 2019

UFAB \$2.87 — (NYSE MKT)

	<u>2017A</u>	<u>2018A</u>	<u>2019E</u>	<u>2020E</u>
Revenues (millions)	\$175.3	\$174.9	\$154.9	\$163.0
Earnings (loss) per share*	\$0.66	\$0.37	\$(0.88)	\$0.49

52-Week range	\$6.68 – \$2.27	Fiscal year ends:	December
Common shares out as of 11/7/19	9.8 million	Revenue per share (TTM)	\$15.98
Approximate float	7.2 million	Price/Sales (TTM)	0.2X
Market capitalization	\$28 million	Price/Sales (FY2020)E	0.2X
Tangible book value/share	\$0.48	Price/Earnings (TTM)	NMF
Price/tangible book value	6.0X	Price/Earnings (FY2020)E	5.9X

*2019 includes an estimated \$(0.69) per share restructuring/impairment charge. 2020 includes an estimated \$(0.09) per share restructuring charge. Headquartered in Auburn Hills, MI, Unique Fabricating (UFAB) is engaged in the engineering and manufacture of multi-material foam, rubber, and plastic components. These components are utilized for reducing noise, vibration and harshness, acoustical management, water and air sealing, decorative and other functional applications.

Key investment considerations:

Reiterating Speculative Buy rating and increasing twelve-month price target to \$4.50 per share from \$4.00 based on our increased 2020 EPS forecast.

In 2019, UFAB's sales are likely to be adversely impacted by the loss of automotive business due to the end of life on certain vehicle platforms, declines in high content vehicle platforms, and the loss of business from two of the company's major industrial customers.

Automotive programs launched in June 2019 (approximately \$10 million on an annual basis) and a return to normal production levels in high content vehicle programs should support sales growth in 2020. The closing of UFAB'S Evansville, Indiana facility in September 2019, the Bryan, Ohio facility closing planned for January 2020, along with further cost reduction measures, should result in earnings growth in 2020.

We estimate the company should pay down approximately \$16.4 million in debt over the two years to 2020.

For FY19, we project an 11.4% decline in revenue to \$154.9 million and a loss of \$(0.88) per share. We previously forecast a loss of \$(0.92) per share on revenue of \$157.9 million.

For FY20, we project a 5.2% increase in revenue to \$163 million and net income of \$0.49 per share, virtually unchanged from our previous projections. Excluding restructuring charges of \$1.2 million, we project EPS of \$0.58. The improvement in net income is primarily due to higher gross margins and lower operating expense than previously anticipated.

UFAB reported (11/7/19) a 3Q19 loss of \$(0.13) per share on an 8.3% decrease in sales to \$38.6 million. EPS in 3Q18 was \$0.06. Excluding impairment/restructuring expenses, we estimate the adjusted net loss was \$(0.05) per share versus EPS of \$0.08 in 3Q18. We projected revenue of \$39.5 million and a loss of \$(0.08) per share.

***Please view our disclosures on pages 14 - 16.**

Recommendation and Valuation**Reiterating Speculative Buy rating on Unique Fabricating, Inc. and increasing twelve-month price target to \$4.50 per share from \$4.00 based on our increased 2020 EPS forecast.**

The company's product sales and programs are highly correlated with new vehicle production in North America. According to LMC Automotive, the level of automobile production in North America is projected to decline 2% in 2019 and increase slightly (less than 1%) in 2020. While lackluster production volumes are projected into 2020, the trend of reducing a vehicle's weight and increasing passenger comfort has typically led to growth greater than vehicle production rates. However, UFAB's sales in 2019 are likely to be adversely impacted by the loss of automotive business due to the end of life on certain vehicle platforms, declines in high content vehicle platforms, and the loss of business from two of the company's major industrial customers.

Automotive programs that launched in June 2019 (approximately \$10 million on an annual basis) and a return to normal production levels in high content vehicle programs should support sales growth in 2020. The closing of UFAB'S Evansville, Indiana facility in September 2019, the Bryan, Ohio facility closing planned for January 2020, along with further cost reduction measures, should result in earnings growth in 2020.

UFAB trades at a 2020 multiple of 6.1X earnings based on our forecast of \$0.49 per share (including an estimated \$(0.09) per share restructuring charge). The company's peers trade at a projected 2020 earnings multiple of 18X (see chart below). We believe UFAB'S relative valuation should improve as earnings growth resumes.

Company	Symbol	Price	Market Cap \$M	Trailing P/E	2020 P/E	2020 EPS Growth
Gentherm	THRM	40.91	1,336	18.6	16.8	18.4%
Fox Factory Holding	FOXF	62.41	2,404	23.6	21.3	9.3%
Standard Motor Products	SMP	50.66	1,138	16.7	14.6	13.4%
Modine Manufacturing	MOD	6.72	341	5.3	6.1	35.4%
Motorcar Parts of America	MPAA	18.86	358	10.8	8.6	19.6%
Superior Industries International	SUP	2.83	71	NMF	NMF	NMF
Tower International	TOWR	31	641	12.4	NMF	NMF
Stoneridge	SRI	28.72	786	17.5	16.9	11.8%
Horizon Global	HZN	3.08	78	NMF	NMF	NMF
Strattec Security	STRT	23.07	88	NMF	NMF	NMF
Peer Average				15.0	14.0	18.0%
Unique Fabricating	UFAB	2.87	28	NMF	6.1	155.7%

Source: Taglich Brothers estimates, Thomson Reuters

Investors could accord UFAB a multiple approaching that of its peers based on the company's 2020 EPS growth forecast (excludes restructuring/impairment expenses) compared to its peers. We applied a multiple of 9X (unchanged) to our FY20 EPS projection of \$0.58 (excludes restructuring charge), discounted to account for execution risk, to obtain a year-ahead value of approximately \$4.50 per share.

Doug Cain Appointed CEO

On September 17, 2019, Unique Fabricating announced the appointment of Doug Cain as its new President and CEO. Cain began work September 30, 2019.

Mr. Cain has more than 30 years of leadership and operational experience in high volume production environments. Over the last 12 years, he served in a series of positions with increasing responsibility for the Mubea Group, a developer and manufacturer of automotive suspension, powertrain, and body components with features that reduce vehicle weights, improve performance, and help protect the environment by lowering CO2 emissions. He served as CEO of Mubea North America where he was responsible for the activities of 13 sites in the US and Mexico, including manufacturing, supply chain, sales, and engineering.

Resignation of CFO

On September 30, 2019, Unique Fabricating announced that Tom Tekiele, CFO, tendered his resignation. Tekiele continued to serve the company until October 11, 2019 to facilitate a smooth transition.

The board of directors of Unique Fabricating has engaged an executive search firm to lead the process of identifying a permanent replacement. In the interim, Doug Cain, the company's new CEO and a seasoned financial executive and holder of an active CPA license, will fill the role on a temporary basis.

Restructurings

Bryan, Ohio - In November 2019, UFAB made the decision to close its manufacturing facility in Bryan, Ohio and expects to cease operations at the Bryan facility by the end of January 2020. The company will move existing Bryan production to its manufacturing facilities in Queretaro, Mexico and LaFayette, GA and expects to incur one-time severance costs as a result of this plant closure of approximately \$0.5 million during 4Q19. Other costs incurred associated with this plant closure will be approximately \$0.8 million during 1Q20.

Evansville, Indiana - In July 2019, UFAB made the decision to close its manufacturing facility in Evansville, Indiana and expects to cease operations at the facility by the end of December 2019. The company will move existing Evansville production to its manufacturing facilities in LaFayette, GA, Auburn Hills, MI, and Louisville, KY and incurred one-time severance costs as a result of this plant closure of \$331,000 in both the 13 and 39 weeks ended September 29, 2019. Other costs incurred associated with this plant closure were \$518,000 in both the 13 and 39 weeks ended September 29, 2019 and were recorded as a restructuring expense.

UFAB will incur lease payments for the remaining term of an existing warehouse lease of \$1.2 million which will be accrued upon the facility's closing in 4Q19. UFAB is actively pursuing a sublease of the facility.

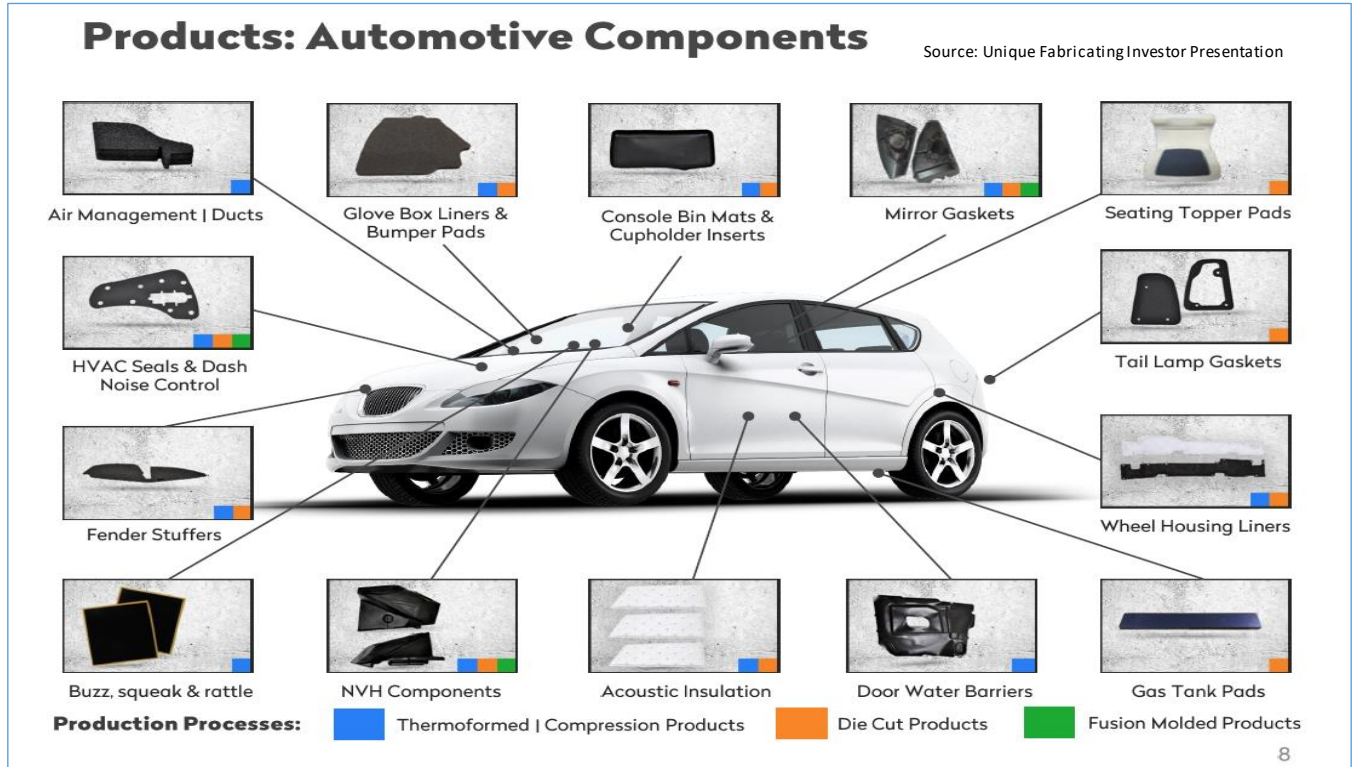
Business

Headquartered in Auburn Hills, MI, Unique Fabricating (UFAB) is engaged in the engineering and manufacture of multi-material foam, rubber, and plastic components. These components are utilized to reduce noise, vibration and harshness, acoustical management, water and air sealing, decorative and other functional applications.

UFAB's products are sold mainly to the North American automotive industry (approximately 85% of total sales in 2018) and are used in industrial applications such as appliances, water heaters, and heating, ventilation, and air conditioning (HVAC) systems (approximately 10% of total sales in 2018).

Unique's primary products are identified by their manufacturing processes, die cut products, thermoformed/compression molded products (includes reaction injection molding), and fusion molded products. Die cut products are utilized in applications such as air and water sealing, insulation, NVH (noise, vibration, and harshness) performance and BSR (buzz, squeak, rattle) conditions. Thermoformed and compression molded products include HVAC air ducts, door water shields, evaporator liners, console bin mats and fender insulators, among others. Fusion molded products include exterior mirror seals, cowl-to-hood seals, cowl-to-fender seals, and other NVH management and sealing applications like fillers, spacers and gaskets.

Pictured below are UFAB's products used by automotive customers.



Industry

UFAB engineers and manufactures multi-material foam, rubber, and plastic components.

Urethane Foam Products Manufacturing

Products made with this type of foam are used to insulate objects, reduce shock in packaging, seat cushioning, carpet cushioning, car interiors, fluid filtration systems, and anti-noise and vibration systems.

The Urethane Foam Manufacturing industry has expanded annually by 2% reaching \$11.6 billion in 2017 from 2013. IBISWorld projects average annual revenue growth of 0.9% to \$12.1 billion in 2024 from 2017. With 11.9% of the total market, this would equate to a \$1.4 billion market for automotive and automotive parts manufacturers by 2024 assuming the current percentages hold steady.

Improving economic conditions have sustained increased demand from major downstream markets. The state of the US automotive industry, including domestic production volumes, affects demand for foam products. The automotive industry uses polyurethane foam in car seats and insulation applications with demand directly correlated to automobile production levels. When more vehicles are manufactured, more foam products will be purchased by the automotive industry for inputs into their vehicles and their components. A greater focus on fuel efficiency will result in more prevalent use of foam in automobile production, given its light weight. LMC Automotive projects the level of automobile production in North America to increase modestly through 2022 to approximately 17.5 million annually from 16.9 million in 2018.

Rubber Products Manufacturing

The rubber products manufacturing industry is projected to have generated sales of approximately \$20.6 billion in 2018 (according to IBISWorld) with 23.9% or \$4.9 billion coming from the automotive segment. IBISWorld projects overall industry revenue growth at an annualized rate of 1.3% reaching \$22.2 billion in 2024. Driving growth will be increased demand for automobiles.

Since 2012, revenue derived from automotive rubber parts has steadily increased. Growing demand from automobile manufacturers has been driven primarily by a strengthening economy and strong demand for lighter, more fuel-efficient cars, as well as increased demand for SUVs and light trucks.

Automotive rubber products account for the largest segment of the industry's products, and demand for rubber products associated with automobile and other manufactured goods will increase as manufacturing activity gains momentum.

Plastic Products Manufacturing

IBISWorld projects the 2019 plastic products manufacturing industry to generate approximately \$104.5 billion in sales with 24.1% or \$25.2 billion coming from automobile manufacturers that use plastic in vehicle interiors and in some engine components. The overall industry is projected to grow at an annualized rate of 0.3% to \$106.2 billion in 2024. Driving growth should be demand from downstream markets that includes the car and automobile manufacturing industry, one of the largest markets for plastic product manufacturers.

Federal regulations requiring cars to have an average fuel economy of 54.5 miles per gallon by 2025 could boost automotive manufacturing moving forward. A simple way for car manufacturers to increase fuel efficiency is to produce lighter cars by using plastic materials instead of steel.

End Markets

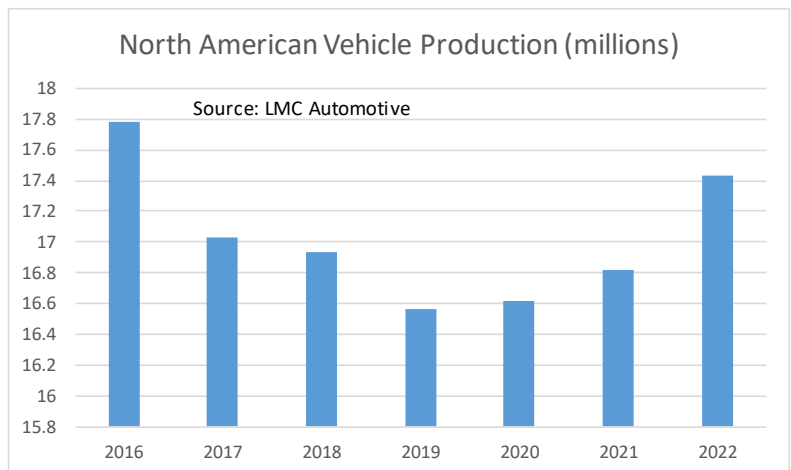
Automotive

The automotive parts industry provides components, systems, subsystems and modules to OEMs for the manufacture of new vehicles. Within the automotive parts industry, North America is UFAB's core market.

Demand for automotive parts in the OEM market is generally a function of the number of new vehicles produced. Although OEM demand is tied to actual vehicle production, participants in the automotive parts industry also have the opportunity to grow through increasing product content per vehicle. We believe that the current trend of increasing fuel efficiency and lowering vehicle weight should help drive increased usage of parts produced by UFAB.

The evolution of materials utilized in vehicles is moving away from conventional steel and is expected to be increasingly replaced by lighter weight materials such as plastics and foam materials.

North American production is projected to decrease to 16.6 million vehicles in 2019 from its plateau of approximately 17.8 million vehicles in 2016. Projections are for North American vehicle production to begin growing in 2020, reaching 17.4 million vehicles by 2022 (see chart at right).



Industrial (Appliance/Water Heater/ HVAC)

Demand for the company's products in industrial applications is largely driven by the health of the construction industry. IBISWorld projects the value of private nonresidential construction to grow from approximately \$600 billion in 2018 to approximately \$725 billion in 2024. The value of residential construction is projected to remain at approximately \$620 billion from 2018 through 2024 (see chart at top right on next page). Continued growth in the nonresidential construction market should bode well for sales of the company's products to the appliance, HVAC, and water heater industries. However, the loss of a major customer in this segment should constrain the company's growth in our forecast horizon.

The US heating, ventilation and air conditioning (HVAC) industry is forecast to show modest growth through 2024, driven mostly by nonresidential growth. IBISWorld projects industry revenue to increase at an average annual rate of 1% to reach approximately \$49.5 billion in the five years to 2024.



Unique estimates the market for its core business for multi-material foam, rubber and plastic components utilized for noise, vibration and harshness (NVH) reduction, air and water sealing, and functional and decorative applications to be approximately \$600 million in North America.

3Q and Nine-month 2019 Financial Results

3Q19 – The net loss was \$1.3 million or \$(0.13) per share on an 8.3% decrease in revenue to \$38.5 million. Net income in 3Q18 was \$627,000 or \$0.06 per share. The net loss for 3Q19 included \$991,000 of restructuring expenses. The net loss for 3Q18 included \$176,000 of restructuring expenses. Excluding these items, we estimate the adjusted net loss was \$(0.05) per share versus EPS of \$0.08 per share in 3Q18. We projected revenue of \$39.5 million and a net loss of \$815,000 or \$(0.08) per share.

The decrease in revenue was primarily due to the loss of business associated with the end of life on certain vehicle platforms, the loss of business associated with plant closures, and the adverse impact the UAW strike had at a certain OEM.

Gross profit decreased to \$7.2 million from \$8.5 million with gross margins decreasing to 18.6% from 20.3%. The decrease in gross margins was primarily due to a \$1.7 million increase in inventory allowance, higher material and labor costs, and lower manufacturing overhead coverage. SG&A expenses decreased to \$6.5 million from \$7.2 million due primarily to headcount reductions. Operating expense margin (excluding restructuring charges) decreased to 17% from 17.2%. The operating loss was \$354,000 versus operating income of \$1.1 million in the year ago period. Interest expense increased to \$1.1 million from \$837,000 due primarily to higher interest rates. The company received a \$252,000 income tax benefit compared to a \$321,000 benefit in the year ago period.

Nine-months 2019 – The net loss was \$9.1 million or \$(0.93) per share on a 13.5% decrease in revenue to \$116.9 million. Net income in the first nine months of 2018 was \$3.9 million or \$0.39 per share. The net loss for 2019 included a charge of \$6.8 million for the impairment of goodwill and \$1.8 million of restructuring expenses versus \$1.2 million of restructuring charges in 2018. Excluding these items, we estimate the adjusted net loss was \$2.7 million or \$(0.28) per share in 2019 versus adjusted net income of \$4.7 million or \$0.48 per share in 2018.

	9 Months Ended	
	9/29/19A	9/30/18A
Sales	116,906	135,099
Cost of sales	93,219	104,306
Gross profit	23,687	30,793
Selling, general, and administrative	21,234	22,572
Restructuring / impairment expenses	8,576	1,156
Operating income	(6,123)	7,065
Other income (expense)	29	(43)
Interest expense	(3,580)	(2,433)
Income before income taxes	(9,674)	4,589
Income tax (benefit)	(598)	699
Net income	(9,076)	3,890
EPS	(0.93)	0.39
Shares Outstanding	9,779	9,916
Margin Analysis		
Gross margin	20.3%	22.8%
SG&A	18.2%	16.7%
Operating margin	(5.2)%	5.2%
Tax rate	6.2%	15.2%
Net margin	(7.8)%	2.9%
Year / Year Growth		
Total Revenues	(13.5)%	
Net Income	NMF	
EPS	NMF	
Source: Company filings		

The decrease in revenue was primarily due to a 1.3% decrease in North American vehicle production, the loss of business due to end of life on certain vehicle platforms, the loss of business associated with plant closures, and the adverse impact the UAW strike had at a certain OEM.

Gross profit decreased to \$23.7 million from \$30.8 million with gross margins decreasing to 20.3% from 22.8%. The decrease in gross margins was primarily due to a \$1.7 million increase in inventory allowance, higher material costs, and lower manufacturing overhead coverage. SG&A expenses decreased 5.9% to \$21.2 million from \$22.6 million. Operating expense margin (excluding restructuring and impairment charges) increased to 18.2% from 16.7%. The operating loss was \$6.1 million versus operating income of \$7.1 million in the year ago period. Interest expense increased to \$3.6 million from \$2.4 million due primarily to an unfavorable mark-to-market on interest rate swaps. The company received a \$598,000 income tax benefit compared to 699,000 income tax expense in the year ago period.

Liquidity - As of September 29, 2019, the company had \$1.5 million cash, a current ratio of 2.4 versus 1.4 for the car parts industry, \$50.8 million of debt (of which \$2.9 million is current) for a debt/equity ratio of 1.3X versus 0.6X for the industry, and approximately 36% of assets are covered by equity.

In the first nine months of 2019, cash provided by operations was approximately \$6.9 million consisting of cash earnings of \$4.7 million and a \$2.2 million decrease in working capital. The decrease in working capital was primarily due to a reduction in receivables. Cash used in investing activities consisted primarily of \$2.1 million of capital expenditures. Cash used in financing of \$4.7 million consisted primarily of a net decrease in debt. Cash increased by \$117,000 to \$1.5 million at September 29, 2019.

The company has a \$62 million credit agreement with Citizens Bank, NA. The credit agreement consists of a revolving line of credit of up to \$30 million, term loans totaling \$26 million, and a two year \$5 million line of credit dedicated to capital expenditures. The revolver and term loans mature on November 7, 2023 and bear interest at the greater of the prime rate or the federal funds rate plus a margin ranging from 1.75% to 3.25%, or LIBOR plus a margin ranging from 2.75% to 4.25%, based on senior leverage ratio thresholds measured quarterly. The effective interest rate as of September 29, 2019 was approximately 6.4%.

On March 31, 2019, UFAB was not in compliance with the total leverage ratio loan covenant which resulted in the elimination of common stock dividends. On July 16, 2019, the company entered into an amended agreement with Citizens Bank which provided a permanent waiver of UFAB'S non-compliance with the total leverage ratio financial covenant. As of September 29, 2019, the company was compliant with the covenants set forth in the waiver and amended agreement. UFAB does not anticipate the payment of dividends in 2019.

Economic Outlook

As Unique's customers are principally engaged in the North American automotive industry (approximately 85% of FY18 sales), the economic outlook for this region should have a direct influence on its sales.

In October 2019, the International Monetary Fund (IMF) lowered its global economic growth estimates to 3% for 2019 and 3.4% for 2020, down from its July 2019 estimates of 3.2% for 2019 and 3.5% for 2020. The IMF said that after slowing sharply in the last three quarters of 2018, the pace of global economic activity remains weak. Momentum in manufacturing activity has weakened substantially to levels not seen since the global financial crisis.

The IMF lowered its economic growth estimate for the US to 2.4% for 2019 but raised it to 2.1% for 2020. In July 2019, the IMF projected US growth of 2.6% for 2019 and 1.9% for 2020. The IMF said that trade tensions have resulted in tariff increases between the US and China and have hurt business sentiment and confidence globally. While financial market sentiment has been undermined by these developments, a shift toward increased monetary policy accommodation in the US has been a counterbalancing force.

The advance estimate of US GDP growth (released on October 30, 2019) showed the US economy grew at an annual rate of 1.9% in 3Q19, down from 2% in 2Q19. The 3Q19 US GDP growth estimate primarily reflects increases in consumer and government spending, housing investment, and exports, while business and inventory investment decreased.

Projections

The company's product sales and programs are highly correlated with new vehicle production in North America. According to LMC Automotive, the level of automobile production in North America is projected to decline 2% in 2019 and increase slightly (less than 1%) in 2020. While lackluster production volumes are projected into 2020, the trend of reducing a vehicle's weight and increasing passenger comfort has typically led to growth greater than vehicle production rates. However, UFAB's sales in 2019 are likely to be adversely impacted by the loss of automotive business due to the end of life on certain vehicle platforms, declines in high content vehicle platforms, and the loss of business from two of the company's major industrial customers.

Automotive programs that launched in June 2019 (approximately \$10 million on an annual basis) and a return to normal production levels in high content vehicle programs should support sales growth in 2020. The closing of UFAB'S Evansville, Indiana facility in September 2019, the Bryan, Ohio facility closing planned for January 2020, along with further cost reduction measures, should result in earnings growth in 2020.

FY19 - We project an 11.4% decline in revenue to \$154.9 million (prior was \$157.9 million) and a net loss of \$8.6 million or \$(0.88) per share. We previously forecast a net loss of \$9 million or \$(0.92) per share. The improvement reflects higher gross margins and lower SG&A expenses than previously anticipated. Excluding \$9.1 million of restructuring/impairment expenses, we estimate a FY19 net loss of \$(0.19) per share.

We project gross profit of \$32.4 million, down from \$39.3 million, as gross margins contract to 20.9% from 22.5% on reduced overhead coverage, offset in part by a full year's benefit from 2018 plant consolidations.

SG&A expenses should decrease to \$27.7 million from \$29.8 million as the company implements cost reduction measures. SG&A margins should increase to 17.9% from 17%.

We project interest expense increasing to \$4.7 million from \$3.8 million due to higher interest expense related to unfavorable mark-to-market valuations on interest rate swaps. We project a tax benefit of \$445,000.

We project UFAB will generate \$9.2 million cash from operations on \$5.1 million cash earnings and a \$4.1 million decrease in working capital. The decrease in working capital should come primarily from a reduction in receivables and inventory. Cash from operations should cover our projected capital expenditures, repayment of debt, and 1Q19 dividend payment, increasing cash by \$112,000 to \$1.5 million at December 31, 2019.

FY20 - We project a 5.2% increase in revenue to \$163 million and net income of \$4.8 million or \$0.49 per share, virtually unchanged from our previous projections. Excluding restructuring charges of \$1.2 million, we project net income of \$5.7 million or \$0.58 per share. The improvement in net income reflects higher gross margins and lower operating expense than previously anticipated.

We project gross profit increasing 18.8% to \$38.5 million due primarily to gross margins increasing to 23.6% from 20.9% on greater overhead coverage and a full year of cost savings from the closing of UFAB'S Evansville, Indiana facility in September 2019, and the Bryan, Ohio facility closing planned for January 2020.

SG&A expenses should decrease to \$26.8 million from \$27.7 million due primarily to a full year's benefit from the company's 2019 cost reduction efforts. SG&A margins should decrease to 16.4% from 17.9%.

We project interest expense decreasing to \$4 million from \$4.7 million due to lower debt balances. Our tax rate estimate is 26%.

We project UFAB will generate \$10.3 million cash from operations on \$11.8 million cash earnings and a \$1.5 million increase in working capital. The increase in working capital should come primarily from an increase in receivables. Cash from operations is unlikely to cover our projected capital expenditures and repayment of debt, decreasing cash by \$794,000 to \$727,000 at December 31, 2020.

Risks

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

Substantial debt level – As of September 29, 2019, UFAB had approximately \$50.8 million of debt outstanding. If the company were to default on paying its debt or fail to comply with the covenants, its lenders could take action that could lead to stockholders losing their investment.

Major customers may exert significant influence - The vehicle component supply industry is highly fragmented and serves a limited number of large OEMs that have a significant amount of leverage over their suppliers. The company's contracts with major OEM and Tier 1 customers frequently provide for annual productivity cost reductions which UFAB has been able to offset through product design changes, increased productivity and similar programs with its suppliers. If UFAB is unable to generate sufficient production cost savings to offset price reductions, its gross margins and profitability would be adversely affected.

Dependency on a few major customers – UFAB's three largest customers accounted for approximately 19.6% of net sales in 2018. The loss or insolvency of any of the company's major customers would adversely affect future results.

Competition – The vehicle component supply industry is highly competitive. UFAB'S products primarily compete on the basis of price, breadth of product offerings, product quality, technical expertise and development capability, product delivery and product service. Increased competition may lead to price reductions resulting in reduced gross margins and loss of market share.

Exchange rate risks – UFAB has two manufacturing facilities in Mexico and one in Canada. Because a portion of the company's manufacturing costs are incurred in Mexican pesos and Canadian dollars, fluctuations in the US dollar/Mexican peso, and US dollar/Canadian dollar exchange rates, may have a material effect on profitability, cash flows, and financial position.

Cyclical nature of business - The demand for the company's products is largely dependent on North American production of automobiles. UFAB's business is cyclical in nature as new vehicle demand is dependent on, among other things, consumer spending, which is closely tied to the overall strength of the economy. A weakening economy would likely lead to declines in vehicle production and adversely impact the company's financial condition.

Potential impact of tariffs – The current US administration has taken steps to apply or consider applying tariffs on automobiles, parts, and other products and materials which could have the potential to disrupt existing supply chains and impose additional costs on UFAB's business.

Liquidity risk - Shares of Unique Fabricating have risks common to those of the microcap segment of the market. Often these risks 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 and can lead to large spreads and high volatility in stock price. There are 7.2 million shares in the float and the average daily volume is approximately 7,000 shares.

Miscellaneous risk - The company's ability to maintain its dividend and its 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.

Unique Fabricating, Inc.

Consolidated Balance Sheets
(in thousands \$)

	<u>FY16A</u>	<u>FY17A</u>	<u>FY18A</u>	<u>9/19A</u>	<u>FY19E</u>	<u>FY20E</u>
Cash	706	1,431	1,410	1,527	1,522	727
Accounts receivable	26,888	27,204	30,831	27,853	27,305	28,732
Inventory	16,731	16,330	16,285	14,532	14,712	14,953
Prepaid expenses and other	2,870	4,608	3,495	4,012	4,012	4,012
Total current assets	47,195	49,573	52,021	47,924	47,551	48,424
Property, plant and equipment	21,198	22,975	25,078	24,991	24,300	23,934
Goodwill	28,871	28,871	28,871	22,111	22,111	22,111
Intangible assets	23,759	19,636	15,568	12,598	11,623	7,709
Other assets	1,514	1,750	1,749	2,024	2,024	2,024
Total assets	<u>122,537</u>	<u>122,805</u>	<u>123,287</u>	<u>109,648</u>	<u>107,609</u>	<u>104,202</u>
Accounts payable	13,452	11,708	11,465	12,805	12,588	12,794
Current portion of long-term debt	2,405	3,800	3,350	2,947	2,947	2,947
Income taxes payable	611	349	41	-	-	-
Accrued compensation	2,734	2,841	2,848	2,330	2,330	2,330
Other accrued liabilities	1,066	1,027	1,432	1,732	1,732	1,732
Other liabilities	169	-	-	-	-	-
Total current liabilities	20,437	19,725	19,136	19,814	19,597	19,803
Long-term debt	28,029	27,289	34,668	33,432	32,277	28,317
Line of credit	20,176	22,476	17,905	14,454	13,271	8,601
Other liabilities	3,836	2,433	2,690	2,508	2,508	2,508
Total liabilities	72,478	71,923	74,399	70,208	67,653	59,229
Total stockholders' equity	<u>50,059</u>	<u>50,882</u>	<u>48,888</u>	<u>39,440</u>	<u>39,955</u>	<u>44,972</u>
Total liabilities & stockholders' equity	<u>122,537</u>	<u>122,805</u>	<u>123,287</u>	<u>109,648</u>	<u>107,609</u>	<u>104,202</u>

Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

Income Statements for the Fiscal Years Ended
(in thousands \$)

	<u>FY16A</u>	<u>2017A</u>	<u>2018A</u>	<u>2019E</u>	<u>2020E</u>
Sales	170,463	175,288	174,910	154,906	163,000
Cost of sales	<u>130,919</u>	<u>135,234</u>	<u>135,575</u>	<u>122,479</u>	<u>124,485</u>
Gross profit	39,544	40,054	39,335	32,426	38,515
Selling, general, and administrative	27,524	29,767	29,781	27,735	26,800
Restructuring / impairment expenses	<u>35</u>	<u>-</u>	<u>1,156</u>	<u>9,075</u>	<u>1,200</u>
Operating income	11,985	10,287	8,398	(4,383)	10,515
Other income (expense)	92	78	(59)	29	-
Interest expense	<u>(2,135)</u>	<u>(2,745)</u>	<u>(3,778)</u>	<u>(4,730)</u>	<u>(4,000)</u>
Income before income taxes	<u>9,942</u>	<u>7,620</u>	<u>4,561</u>	<u>(9,084)</u>	<u>6,515</u>
Income tax (benefit)	3,258	1,133	862	(445)	1,694
Net income	<u>6,684</u>	<u>6,487</u>	<u>3,699</u>	<u>(8,640)</u>	<u>4,821</u>
EPS	<u>0.68</u>	<u>0.66</u>	<u>0.37</u>	<u>(0.88)</u>	<u>0.49</u>
Shares Outstanding	9,896	9,899	9,909	9,779	9,780
<u>Margin Analysis</u>					
Gross margin	23.2%	22.9%	22.5%	20.9%	23.6%
SG&A	16.1%	17.0%	17.0%	17.9%	16.4%
Operating margin	7.0%	5.9%	4.8%	(2.8)%	6.5%
Tax rate	32.8%	14.9%	18.9%	4.9%	26.0%
Net margin	3.9%	3.7%	2.1%	(5.6)%	3.0%
<u>Year / Year Growth</u>					
Total Revenues	18.9%	2.8%	(0.2)%	(11.4)%	5.2%

Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

Quarterly Income Statement 2018A to 2020E
(in thousands \$)

	3/18A	6/18A	9/18A	12/18A	2018A	3/19A	6/19A	9/19A	12/19E	2019E	3/20E	6/20E	9/20E	12/20E	2020E
Sales	47,304	45,742	42,052	39,812	174,910	39,467	38,889	38,550	38,000	154,906	40,000	40,500	41,000	41,500	163,000
Cost of sales	36,224	34,553	33,528	31,270	135,575	31,167	30,677	31,375	29,260	122,479	30,700	30,983	31,263	31,540	124,485
Gross profit	11,080	11,189	8,524	8,542	39,335	8,300	8,212	7,174	8,740	32,426	9,300	9,518	9,738	9,960	38,515
Selling, general, and administrative	7,967	7,379	7,226	7,209	29,781	7,273	7,424	6,538	6,500	27,735	6,700	6,700	6,700	6,700	26,800
Restructuring / impairment expenses	442	538	176	-	1,156	90	7,494	991	500	9,075	1,200	-	-	-	1,200
Operating income	2,671	3,272	1,122	1,333	8,398	937	(6,706)	(354)	1,740	(4,383)	1,400	2,818	3,038	3,260	10,515
Other income (expense)	(36)	(28)	21	(16)	(59)	17	25	(13)	-	29	-	-	-	-	-
Interest expense	(736)	(861)	(837)	(1,344)	(3,778)	(1,100)	(1,331)	(1,149)	(1,150)	(4,730)	(1,030)	(1,010)	(990)	(970)	(4,000)
Income before income taxes	1,899	2,383	306	(27)	4,561	(146)	(8,012)	(1,516)	590	(9,084)	370	1,808	2,048	2,290	6,515
Income tax (benefit)	387	632	(321)	164	862	43	(389)	(252)	153	(445)	96	470	532	595	1,694
Net income	1,512	1,751	627	(191)	3,699	(189)	(7,623)	(1,264)	437	(8,640)	274	1,338	1,515	1,695	4,821
EPS	0.15	0.18	0.06	(0.02)	0.37	(0.02)	(0.78)	(0.13)	0.04	(0.88)	0.03	0.14	0.15	0.17	0.49
Shares Outstanding	9,912	9,917	9,919	9,887	9,909	9,779	9,779	9,779	9,780	9,779	9,780	9,780	9,780	9,780	9,780
<u>Margin Analysis</u>															
Gross margin	23.4%	24.5%	20.3%	20.5%	22.5%	21.0%	21.1%	18.6%	23.0%	20.9%	23.3%	23.5%	23.8%	24.0%	23.6%
SG&A	16.8%	16.1%	17.2%	18.1%	17.0%	18.4%	19.1%	17.0%	17.1%	17.9%	16.8%	16.5%	16.3%	16.1%	16.4%
Operating margin	5.6%	7.2%	2.7%	3.3%	4.8%	2.4%	(17.2)%	(0.9)%	4.6%	(2.8)%	3.5%	7.0%	7.4%	7.9%	6.5%
Tax rate	20.4%	26.5%	NMF	NMF	18.9%	NMF	NMF	NMF	26.0%	4.9%	26.0%	26.0%	26.0%	26.0%	26.0%
Net margin	3.2%	3.8%	1.5%	(0.5)%	2.1%	(0.5)%	(19.6)%	(3.3)%	1.1%	(5.6)%	0.7%	3.3%	3.7%	4.1%	3.0%
<u>Year / Year Growth</u>															
Total Revenues	(1.2)%	2.7%	2.0%	(4.5)%	(0.2)%	(16.6)%	(15.0)%	(8.3)%	(4.6)%	(11.4)%	1.4%	4.1%	6.4%	9.2%	5.2%

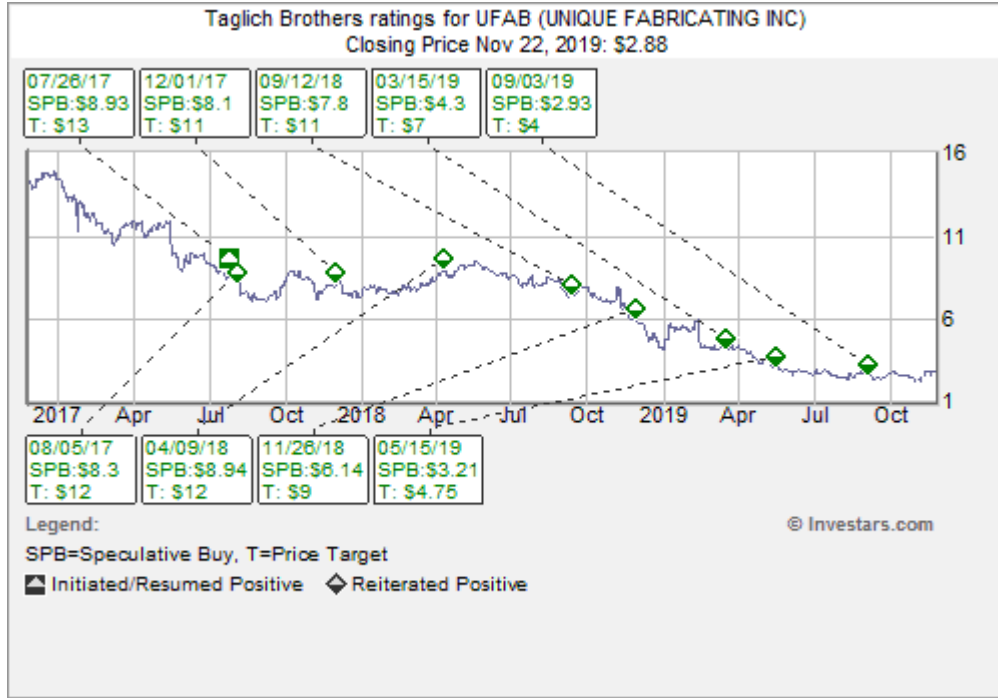
Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

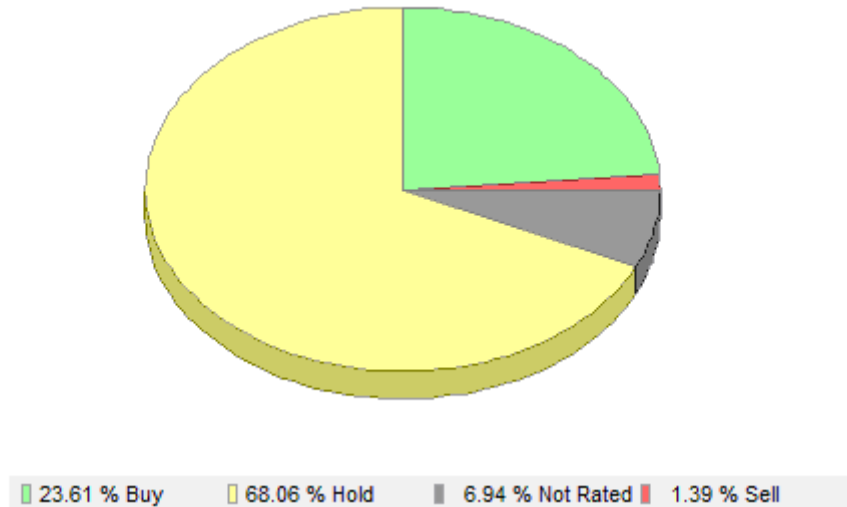
Statement of Cash Flows for the Periods Ended
(in thousands \$)

	FY16A	FY17A	FY18A	9M19A	FY19E	FY20E
Net income (loss)	6,684	6,487	3,699	(9,077)	(8,640)	4,821
Impairment of goodwill	-	-	-	6,760	6,760	
Inventory allowance	-	-	-	1,742	1,742	
Depreciation and amortization	5,502	6,320	6,630	5,140	6,853	6,780
Amortization of debt issuance costs	128	149	147	133	177	177
(Gain) loss on sale of assets	(127)	63	(138)	5	5	-
Loss on extinguishment of debt	60	-	59	-	-	-
Bad debt adjustment	(274)	128	13	191	191	-
Loss (gain) on derivative instruments	22	(228)	452	746	746	-
Stock option expense	166	150	131	117	156	156
Deferred taxes	(1,166)	(1,552)	(291)	(1,073)	(2,929)	(119)
Cash earnings (loss)	10,995	11,517	10,702	4,684	5,061	11,815
<i>Changes in assets and liabilities</i>						
Accounts receivable	(3,987)	(444)	(3,641)	2,787	3,526	(1,427)
Inventory	340	402	45	11	1,573	(241)
Prepaid expenses and other assets	(1,292)	(1,766)	1,212	(646)	(1,560)	(58)
Accounts payable	1,330	(1,706)	1,008	337	1,123	206
Accrued and other liabilities	375	(194)	104	(259)	(518)	-
(Increase) decrease in working capital	(3,234)	(3,708)	(1,272)	2,230	4,144	(1,520)
Net cash provided by (used in) operations	7,761	7,809	9,430	6,914	9,206	10,296
Purchase of property and equipment	(3,362)	(4,140)	(5,394)	(2,130)	(2,130)	(2,500)
Proceeds from sale of property and equipment	2,187	52	904	42	42	-
Acquisition of Intasco	(21,031)	-	-	-	-	-
Working capital adjustment related to Intasco	213	-	-	-	-	-
Net cash provided by (used in) investing	(21,993)	(4,088)	(4,490)	(2,088)	(2,088)	(2,500)
Net change in bank overdraft	549	(38)	(1,251)	1,003	1,003	-
Proceeds from debt	32,000	-	10,132	1,300	1,300	-
Payments on term loans	(2,444)	(3,375)	(2,962)	(3,012)	(4,167)	(3,960)
Proceeds from (payments on) revolving facilities	5,690	6,231	(4,422)	(3,510)	(4,693)	(4,670)
Debt issuance costs	(514)	-	(634)	-	-	-
Pay-off of old senior credit facility	(15,375)	-	-	-	-	-
Proceeds from exercise of stock options and warrants	116	37	38	-	40	40
Distribution of cash dividends	(5,812)	(5,850)	(5,862)	(489)	(489)	-
Net cash provided by (used in) financing	14,210	(2,995)	(4,961)	(4,708)	(7,006)	(8,590)
Net change in cash	(21)	725	(21)	117	112	(794)
Cash - beginning of period	727	706	1,431	1,410	1,410	1,522
Cash - end of period	706	1,431	1,410	1,527	1,522	727

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	10
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of UFAB common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 476,467 shares of UFAB common stock and 10,587 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 494,694 shares of UFAB common stock and 8,663 warrants. Doug Hailey, Managing Director – Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 24,821 shares of UFAB common stock and 7,050 warrants. William Cook, Vice President – Investment Banking at Taglich Brothers, Inc. and a Director at Unique Fabricating, owns or has a controlling interest in 45,142 shares of UFAB common stock and 6,000 shares subject to exercisable options. Robert Schroeder, Vice President – Investment Banking at Taglich Brothers, Inc. owns or has a controlling interest in 10,353 shares of UFAB common stock and 14,100 warrants. Richard Oh, Managing Director at Taglich Brothers, Inc. owns or has a controlling interest in 51,600 shares of UFAB common stock and 3,700 warrants. Other employees at Taglich Brothers, Inc. own or have controlling interests in 6,650 shares of UFAB common stock and 23,100 warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In March 2013, Taglich Brothers, Inc. arranged the equity financing for the Management Buyout of Unique Fabricating, Inc. In December 2013, Taglich Brothers, Inc. arranged the equity financing for UFAB's acquisition of Prescotech Industries, Inc. In July 2015, Taglich Brothers, Inc. served as the Joint Book Running Manager in the Initial Public Offering of common stock for the company.

All research issued by Taglich Brothers, Inc. is based on public information. Unique Fabricating, Inc. does not pay Taglich Brothers, Inc. for the creation and dissemination of research reports.

General 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:

Fox Factory Holding (NASDAQ: FOXF)
Gentherm (NASDAQ: THRM)
Horizon Global (NYSE: HZN)
Modine Manufacturing (NYSE: MOD)
Motorcar Parts of America (NASDAQ: MPAA)
Standard Motor Products (NYSE: SMP)
Stoneridge (NYSE: SRI)
Strattec Security (NASDAQ: STRT)
Superior Industries International (NYSE: SUP)
Tower International (NASDAQ: TOWR)

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

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

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