

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

August 15, 2017

UFAB \$7.77 — (NYSE MKT)

	<u>2015A</u>	<u>2016A</u>	<u>2017E</u>	<u>2018E</u>
Revenues (millions)	\$143.3	\$170.5	\$179.0	\$190.0
Earnings (loss) per share	\$0.60	\$0.68	\$0.73	\$0.92

52-Week range	\$15.93 – \$7.45	Fiscal year ends:	December
Common shares out as of 8/2/17	9.8 million	Revenue per share (TTM)	\$18.23
Approximate float	6.7 million	Price/Sales (TTM)	0.4X
Market capitalization	\$76 million	Price/Sales (FY2018)E	0.4X
Tangible book value/share	NMF	Price/Earnings (TTM)	9.7X
Price/tangible book value	NMF	Price/Earnings (FY2018)E	8.4X
Annual dividend	\$0.60	Annual dividend yield	7.7%

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 but lowering twelve-month price target to \$12.00 per share (previously \$13.00 per share) based on reduced earnings projections.

According to LMC Automotive, the level of car production in North America is projected to remain relatively flat over the next three years at approximately 17.8 million annually. However, current trends of reducing a vehicle's weight and increasing passenger comfort should allow the company to grow sales through 2018.

Our 2017 and 2018 projections are supported by new program orders for Unique's TwinShape foam duct products that are scheduled to be installed in a popular mid-size SUV in 2017 and in two popular mid-size SUV's in 2H18.

For FY17, we project 5% revenue growth to \$179 million and EPS of \$0.73, down from our previous projections of \$185 million and EPS of \$0.84, due primarily to reduced North American vehicle production rates. The 2Q17 forecast calls for relatively flat production compared to the prior forecast calling for 2% average annual growth.

For FY18, we project 6.2% revenue growth to \$190 million and EPS of \$0.92, down from our previous projections of \$199.1 million and EPS of \$0.98 due primarily to reduced North American vehicle production. Our earnings growth forecast reflects expanded gross and operating margins.

UFAB reported (8/7/17) 2Q17 EPS of \$0.17 on a 6% increase in revenue to \$44.5 million. EPS in 2Q16 was \$0.06. We projected revenue of \$44.7 million and EPS of \$0.20.

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

Recommendation and Valuation

We are reiterating our **Speculative Buy** rating on **Unique Fabricating, Inc.** but lowering our twelve-month price target to **\$12.00 per share (previously \$13.00 per share)** based on reduced earnings projections stemming from a relatively flat 2Q17 outlook for North American vehicle production versus 2% average annual growth projected previously.

According to LMC Automotive, the level of car production in North America is projected to remain relatively flat over the next three years at approximately 17.8 million annually. However, current trends of reducing a vehicle's weight and increasing passenger comfort should allow the company to grow sales through 2018.

Our 2017 and 2018 projections are supported by new program orders for Unique's TwinShape foam duct products that are scheduled to be installed in a popular mid-size SUV in 2017 and in two popular mid-size SUV's in 2H18.

UFAB is undervalued relative to its peers (see chart below) especially when UFAB'S greater projected earnings growth rate is taken into consideration. However, the extreme product diversity of the peer group causes us to not rely too heavily on this metric. Nevertheless, we believe valuation should improve once the above average earnings growth of the company is recognized.

Company	Symbol	Price	Market Cap \$M	Trailing P/E	2018 P/E	2018 EPS Growth
Gentherm	THRM	30.75	1,133	13.9	11.7	30.8%
Fox Factory Holding	FOXF	37.5	1,404	25.0	22.5	11.3%
Standard Motor Products	SMP	45.73	1,042	15.8	13.3	20.2%
Modine Manufacturing	MOD	16	802	17.0	9.6	17.7%
Motorcar Parts of America	MPAA	27.37	510	12.4	10.0	15.1%
Superior Industries International	SUP	15.75	392	12.9	7.5	27.3%
Tower International	TOWR	23.05	473	6.3	5.9	8.3%
Stoneridge	SRI	16.55	466	11.0	11.3	0.7%
Horizon Global	HZN	17.35	433	28.9	12.8	24.8%
Strattec Security	STRT	35.35	130	NA	NA	NA
Peer Average				15.9	11.6	17.4%
Unique Fabricating	UFAB	7.77	76	9.7	8.4	26.0%

Source: Taglich Brothers estimates, Thomson Reuters

Historically, (since its IPO in July 2015), the company has traded at an average P/E ratio of approximately 24X. We applied a multiple of 13X to our FY18 EPS projection of \$0.92 to obtain a year-ahead value of approximately \$12.00 per share.

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.

The company was formed through the acquisitions of Prescottech Holdings, Chardan Corporation, Great Lakes Foam Technologies, and Intasco Corporation. A brief description of each acquisition can be seen in the table at the top of page three.

UFAB's products are sold mainly to the North American automotive industry (almost 80% of total sales in FY16) and are used in industrial applications such as appliances, water heaters, and HVAC systems (approximately 15% of total sales in FY16).

Acquired Company / (acquisition date)	Company Overview
Prescottech Holdings, Inc. / (December 2013)	Prescottech Holdings, Inc., is a designer and manufacturer of foams, adhesives, rubber products, fiberglass insulation products, fiberboards, and sound dampening products.
Chardan Corporation / (February 2014)	Chardan Corporation is a provider of engineered vacuum thermoforming (the forming of plastic sheets into three-dimensional shapes through the application of heat and pressure) and fusion molding (a plastic injection molding process used to mold internal cavities) technologies.
Great Lakes Foam Technologies / (August 2015)	Great Lakes Foam Technologies is a producer of reaction injection molded polyurethane (a manufacturing process for producing parts by injecting thermosetting polymers into a mold) components.
Intasco Corporation / (April 2016)	Intasco Corporation provides material conversion of pressure sensitive products (conversion of raw materials such as foams, plastics, and rubbers, into new products) as well as adhesives and automotive die cuts.

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.

Products: Automotive Components Source: Unique Fabricating Investor Presentation

Production Processes:

- Thermoformed | Compression Products
- Die Cut Products
- Fusion Molded Products

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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 2.1% to reach \$11.4 billion in 2017. 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 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. LMC Automotive projects the level of car production in North America to remain relatively flat over the next three years at approximately 17.8 million annually.

IBISWorld projects 2017 urethane foam manufacturing industry revenue of \$11.4 billion with 12.4% or \$1.4 billion coming from automotive and automotive parts manufacturers. IBISWorld projects average annual revenue growth of 1.5% to \$12.3 billion in 2022 from 2017. IBISWorld anticipates demand from the automobile manufacturing industry to remain moderate to 2022. Fewer incentives for auto buyers and a general shift toward more public transportation usage could reduce many households' need for new vehicles. IBISWorld expects demand from car and automobile manufacturing to rise at an annualized rate of 0.9% to 2022. However, a greater focus on fuel efficiency will result in more prevalent use of foam in automobile production, given its light weight.

Rubber Products Manufacturing

The rubber products manufacturing industry is projected to generate sales of approximately \$19.9 billion in 2017 (according to IBISWorld) with 21.3% or \$4.2 billion coming from the automotive segment. IBISWorld projects the overall market to grow steadily with industry revenue growth projected at an annualized rate of 1.2% reaching \$21.1 billion in 2022. Growth reflects the performance of downstream rubber products buyers that include a host of manufacturing industries with an emphasis on automotive and industrial machinery manufacturers.

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 2017 plastic products manufacturing industry to generate approximately \$99.8 billion in sales with 26.7% or \$26.6 billion coming from automobile manufacturers that use plastic in vehicle interiors and in some engine components. IBISWorld projects the overall industry to grow at an annualized rate of 2.5% to \$112.9 billion to 2022. Driving growth will 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. However, a March 2017 executive order by the Trump administration could negate or delay the fuel economy mandate. Nevertheless, a simple way for car manufacturers to increase fuel efficiency is to produce lighter cars by using plastic materials instead of steel.

End Markets

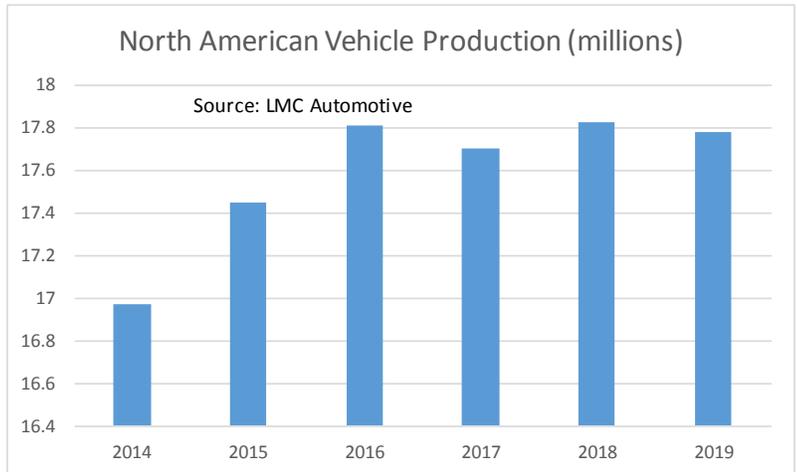
Automotive

The automotive parts industry provides components, systems, subsystems and modules to OEMs for the manufacture of new vehicles. In January 2017, Dun & Bradstreet reported the North American automotive supplier market had revenue of approximately \$250 billion. 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 demand has plateaued but is projected to remain at a relatively high level. According to LMC Automotive, the level of car production in North America is projected to remain relatively flat over the next three years at approximately 17.8 million annually (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 housing sector. IBISWorld projects new housing starts to grow from approximately 1.2 million units in 2016 to 1.5 million in 2021 for a CAGR of 4.9% (see chart at right). A growing housing market should bode well for sales of the company’s products to the appliance, HVAC, and water heater industries.



The US major household appliance industry, which includes water heaters, is forecast to show modest growth through 2022, driven by an increase in housing starts, homeownership, and product development. IBISWorld projects industry revenue to grow at an average annual rate of 1.5% reaching approximately \$17 billion in 2022. The US HVAC industry is also poised to benefit from the positive outlook in the housing market. IBISWorld projects HVAC industry sales to grow at an average annual growth rate of 1.8% reaching approximately \$50.4 billion in 2022.

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.

2Q and 1H17 Financial Results

2Q17 - Net income increased to \$1.7 million or \$0.17 per share on a 6% increase in revenue to \$44.5 million. Net income in 2Q16 was \$599,000 or \$0.06 per share. We projected revenue of \$44.7 million and net income of \$2 million or \$0.20 per share.

The increase in revenue was primarily due to the April 2016 acquisition of Intasco, as well as new product introductions and increased market penetration.

Gross profit increased to \$10.7 million from \$9 million with gross margins increasing to 24% from 21.6% due primarily to a favorable product mix and lower amortization costs.

SG&A expenses increased to \$7.6 million from \$7.2 million. Operating expense margin remained relatively flat at 17.1%. Operating income increased 59.4% to \$3.1 million or 6.9% of sales versus operating income of \$1.9 million or 4.6% of sales in the year ago period. Interest expense decreased to \$703,000 from \$873,000 due primarily to the absence of certain debt financing costs associated with the company's acquisition of Intasco in April 2016. The company paid \$729,000 in taxes for a 30.4% tax rate versus \$430,000 or a 41.8% tax rate in 2Q16.

1H17 - Net income increased to \$3.7 million or \$0.38 per share on a 12.6% increase in revenue to \$92.4 million. Net income in 1H16 was \$2.4 million or \$0.25 per share.

The increase in revenue was primarily due to the April 2016 acquisition of Intasco, as well as new product introductions and increased market penetration.

Gross profit increased to \$21.8 million from \$18.7 million with gross margins increasing to 23.6% from 22.8% due primarily to a favorable product mix and lower amortization costs.

SG&A expenses increased to \$15.2 million from \$13.7 million. Operating expense margin improved to 16.4% from 16.7%. Operating income increased 33.4% to \$6.6 million or 7.1% of sales versus operating income of \$4.9 million or 6% of sales in 2H16. Interest expense increased to \$1.3 million from \$1.2 million due primarily to higher interest rates and increased debt levels. The company paid \$1.6 million in taxes for a 30.1% tax rate versus \$1.3 million or a 34.2% tax rate in 1H16.

Liquidity - As of July 2, 2017, the company had \$807,000 cash, a current ratio of 2.7X versus 1.4X for the car parts industry, \$55.1 million of debt (of which \$2.6 million is categorized as current) for a debt/equity ratio of 1.1X versus 0.6X for the industry, and approximately 40% of assets are covered by equity.

	6 Months Ended	
	<u>7/2/17A</u>	<u>7/3/16A</u>
Sales	92,375	82,031
Cost of sales	<u>70,602</u>	<u>63,340</u>
Gross profit	21,773	18,691
Selling, general, and administrative	15,187	13,719
Restructuring expenses	-	35
Operating income	6,586	4,937
Other income	44	(24)
Interest expense	<u>(1,319)</u>	<u>(1,214)</u>
Income before income taxes	<u>5,311</u>	<u>3,699</u>
Income tax	1,596	1,266
Net income	<u>3,715</u>	<u>2,433</u>
EPS	<u>0.38</u>	<u>0.25</u>
Shares Outstanding	9,905	9,869
Margin Analysis		
Gross margin	23.6%	22.8%
SG&A	16.4%	16.7%
Operating margin	7.1%	6.0%
Tax rate	30.1%	34.2%
Net margin	4.0%	3.0%
Year / Year Growth		
Total Revenues	12.6%	
Net Income	52.7%	
EPS	52.1%	
Source: Company filings		

Cash provided by operations in the first six months of FY17 was approximately \$1.7 million consisting of cash earnings of \$7.1 million and a \$5.3 million increase in working capital. The change in working capital was primarily due to increased accounts receivable and prepaid expenses. Cash used in investing activities consisted

primarily of \$2.4 million of capital expenditures. Cash provided by financing of \$781,000 consisted primarily of increased debt offset in part by dividend payments. Cash increased by \$101,000 to \$807,000 at July 2, 2017.

The company has a \$62 million credit agreement with Citizens Bank, National Association. The credit agreement consists of a revolving line of credit of up to \$30 million and two term loans totaling \$32 million. The revolver and term loans mature on April 28, 2021 and bear interest at the greater of the prime rate or the federal funds rate plus a margin ranging from 1.75% to 2.50%, or LIBOR plus a margin ranging from 2.75% to 3.50%, based on senior leverage ratio thresholds measured quarterly. The effective interest rate as of April 2, 2017 was approximately 4.5%.

The company must comply with a minimum debt service financial covenant and a senior funded indebtedness to EBITDA covenant. As of July 2, 2017, UFAB was in compliance with all loan covenants.

Economic Outlook

As Unique's customers are principally engaged in the North American automotive industry (almost 80% of FY16 sales), the economic outlook for this region should have a direct influence on its sales.

In July 2017, the International Monetary Fund (IMF) lowered its economic growth estimate for the US to 2.1% in 2017 and 2018, down from its earlier (April 2017) growth forecast of 2.3% in 2017 and 2.5% in 2018. The downward revision reflects the uncertainties surrounding the President's plans to overhaul the economy. These uncertainties include the yet to be decided details about budget proposals to reduce the fiscal deficit and debt, to reprioritize public spending, and to revamp the tax system.

The advance estimate of US GDP growth (released on July 28, 2017) showed the US economy grew at an annual rate of 2.6% in 2Q17, up from 1.2% growth in 1Q16. The 2Q17 US GDP growth estimate primarily reflects increases in consumer spending, business investment, exports, and federal government spending. Partly offsetting these contributions to GDP growth were declines in inventory and housing investment, and state and local government spending.

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 car production in North America is currently projected to remain relatively flat over the next three years at approximately 17.8 million vehicles annually versus previous growth projections to 18.5 million vehicles over the same time frame. However, current trends of reducing a vehicle's weight and increasing passenger comfort should support sales growth for UFAB through 2018.

Our 2017 and 2018 projections are supported by new program orders for Unique's TwinShape foam duct products that are scheduled to be installed in a popular mid-size SUV in 2017 and in two popular mid-size SUV's in 2H18.

FY17 - We project 5% revenue growth to \$179 million and net income of \$7.3 million or \$0.73 per share, down from our previous projections of \$185 million revenue and net income of \$8.3 million or \$0.84 per share

We project a 7.6% increase in gross profit to \$42.6 million with gross margins of 23.8%. Our gross margin projections are in line with average gross margins since the company's acquisition of Intasco.

SG&A expenses are projected to increase by \$2.2 million to \$29.7 million from \$27.5 million due to increased cash compensation and new product marketing costs. SG&A margins are projected at 16.6% versus 16.1% in FY16 as 7.9% expense growth outpaces 5% sales growth.

We project interest expense increasing to \$2.5 million from \$2.1 million due to higher average debt levels. We estimate a tax rate of 29.8% as earnings in Mexico and Canada are taxed at lower rates than in the US and the company qualifies for a domestic production activities deduction.

We project UFAB will generate cash of \$10.8 million from operations as \$13.8 million cash earnings are partly offset by a \$3 million increase in working capital. The change in working capital should come primarily from increases in accounts receivable and prepaid expenses. Cash from operations should cover our projected capital expenditures, repayment of debt, and dividend payments, increasing cash by \$180,000 to \$886,000 at December 31, 2017.

FY18 - We project 6.2% revenue growth to \$190 million and net income of \$9.1 million or \$0.92 per share, down from our previous projections of \$199.1 million and net income of \$9.7 million or \$0.98 per share due to a slower than originally anticipated ramp of sales into the North American automotive industry.

We project gross profit of \$45.6 million, up from \$42.6 million, as gross margins increase to 24% from 23.8% on greater overhead coverage.

SG&A expenses should increase to \$30.4 million from our projection of \$29.7 million in 2017 due to increased cash compensation and new product marketing costs. SG&A margins should decrease to 16% from 16.6%.

We project interest expense decreasing to \$2.2 million from \$2.5 million due to lower average debt levels. Our tax rate estimate is 30.4%.

We project UFAB will generate cash of \$13.8 million from operations as \$15.7 million cash earnings are partly offset by a \$1.9 million increase in working capital. The change in working capital should come primarily from an increase in accounts receivable. Cash from operations should fall short of covering our projected capital expenditures, repayment of debt, and dividend payments, decreasing cash by \$292,000 to \$594,000 at December 31, 2018.

Risks

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

Substantial debt level – As of July 2, 2017, UFAB had approximately \$55.1 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 current dividend and ultimately their entire 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 16.4% of net sales in FY16. 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.

NAFTA uncertainty - A significant portion of UFAB's business is conducted in Mexico. The current US President has made comments suggesting that he was not supportive of certain existing international trade agreements, including the North American Free Trade Agreement (NAFTA). While it remains unclear what actions will be taken if the US were to withdraw from or materially modify NAFTA or certain other international trade agreements, UFAB's business, financial condition and results of operations could be adversely affected.

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 6.7 million shares in the float and the average daily volume is approximately 37,000 shares.

Miscellaneous risk - The company's financial results and equity values are subject to other risks and uncertainties including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Unique Fabricating, Inc.

Consolidated Balance Sheets
(in thousands \$)

	<u>FY15A</u>	<u>FY16A</u>	<u>6/17A</u>	<u>FY17E</u>	<u>FY18E</u>
Cash	727	706	807	886	594
Accounts receivable	20,480	26,888	30,404	28,231	29,970
Inventory	14,586	16,731	16,387	17,434	18,454
Prepaid expenses and other	4,647	2,870	4,446	4,446	4,446
Total current assets	40,440	47,195	52,044	50,996	53,463
Property, plant and equipment	18,761	21,198	22,560	24,387	27,305
Goodwill	19,214	28,871	28,871	28,871	28,871
Intangible assets	20,139	23,759	21,698	19,637	15,567
Other assets	1,175	1,514	1,682	1,682	1,682
Total assets	<u>99,729</u>	<u>122,537</u>	<u>126,855</u>	<u>125,573</u>	<u>126,888</u>
Accounts payable	11,431	13,452	12,861	14,017	14,837
Current portion of long-term debt	2,519	2,405	2,600	2,600	2,600
Income taxes payable	-	611	76	76	76
Accrued compensation	2,284	2,734	2,775	2,775	2,775
Other accrued liabilities	1,159	1,066	808	808	808
Other liabilities	-	169	-	-	-
Total current liabilities	17,393	20,437	19,120	20,276	21,096
Long-term debt	13,907	28,029	26,091	24,891	21,891
Line of credit	14,595	20,176	26,458	24,458	24,458
Other liabilities	5,821	3,836	4,224	4,224	4,224
Total liabilities	<u>51,716</u>	<u>72,478</u>	<u>75,893</u>	<u>73,849</u>	<u>71,669</u>
Total stockholders' equity	<u>48,013</u>	<u>50,059</u>	<u>50,962</u>	<u>51,724</u>	<u>55,219</u>
Total liabilities & stockholders' equity	<u>99,729</u>	<u>122,537</u>	<u>126,855</u>	<u>125,573</u>	<u>126,888</u>

Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

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

	<u>FY15A</u>	<u>FY16A</u>	<u>2017E</u>	<u>2018E</u>
Sales	143,309	170,463	178,975	190,000
Cost of sales	<u>109,488</u>	<u>130,919</u>	<u>136,418</u>	<u>144,400</u>
Gross profit	33,821	39,544	42,557	45,600
Selling, general, and administrative	23,372	27,524	29,687	30,400
Restructuring expenses	<u>374</u>	<u>35</u>	<u>-</u>	<u>-</u>
Operating income	10,075	11,985	12,870	15,200
Other income	23	92	93	100
Interest expense	<u>(2,755)</u>	<u>(2,135)</u>	<u>(2,528)</u>	<u>(2,210)</u>
Income before income taxes	<u>7,343</u>	<u>9,942</u>	<u>10,435</u>	<u>13,090</u>
Income tax	2,314	3,258	3,154	3,979
Net income	<u>5,029</u>	<u>6,684</u>	<u>7,281</u>	<u>9,111</u>
EPS	<u>0.60</u>	<u>0.68</u>	<u>0.73</u>	<u>0.92</u>
Shares Outstanding	8,427	9,896	9,912	9,910
<u>Margin Analysis</u>				
Gross margin	23.6%	23.2%	23.8%	24.0%
SG&A	16.3%	16.1%	16.6%	16.0%
Operating margin	7.0%	7.0%	7.2%	8.0%
Tax rate	31.5%	32.8%	29.8%	30.4%
Net margin	3.5%	3.9%	4.1%	4.8%
<u>Year / Year Growth</u>				
Total Revenues		18.9%	5.0%	6.2%
Net Income		32.9%	8.9%	25.1%
EPS		13.2%	8.8%	25.1%

Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

Quarterly Income Statement 2016A to 2018E
(in thousands \$)

	3/16A	6/16A	9/16A	12/16A	FY16A	3/17A	6/17A	9/17E	12/17E	2017E	3/18E	6/18E	9/18E	12/18E	2018E
Sales	39,983	42,048	44,753	43,679	170,463	47,857	44,518	42,800	43,800	178,975	47,500	48,250	47,500	46,750	190,000
Cost of sales	<u>30,383</u>	<u>32,957</u>	<u>33,503</u>	<u>34,076</u>	<u>130,919</u>	<u>36,750</u>	<u>33,852</u>	<u>32,528</u>	<u>33,288</u>	<u>136,418</u>	<u>36,100</u>	<u>36,670</u>	<u>36,100</u>	<u>35,530</u>	<u>144,400</u>
Gross profit	9,600	9,091	11,250	9,603	39,544	11,107	10,666	10,272	10,512	42,557	11,400	11,580	11,400	11,220	45,600
Selling, general, and administrative	6,555	7,165	6,949	6,856	27,524	7,592	7,595	7,250	7,250	29,687	7,680	7,760	7,600	7,360	30,400
Restructuring expenses	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating income	3,010	1,926	4,301	2,747	11,985	3,515	3,071	3,022	3,262	12,870	3,720	3,820	3,800	3,860	15,200
Other income	-	(24)	(2)	117	92	14	29	25	25	93	25	25	25	25	100
Interest expense	<u>(341)</u>	<u>(873)</u>	<u>(525)</u>	<u>(396)</u>	<u>(2,135)</u>	<u>(615)</u>	<u>(703)</u>	<u>(612)</u>	<u>(598)</u>	<u>(2,528)</u>	<u>(584)</u>	<u>(570)</u>	<u>(542)</u>	<u>(514)</u>	<u>(2,210)</u>
Income before income taxes	<u>2,669</u>	<u>1,029</u>	<u>3,774</u>	<u>2,468</u>	<u>9,942</u>	<u>2,914</u>	<u>2,397</u>	<u>2,435</u>	<u>2,689</u>	<u>10,435</u>	<u>3,161</u>	<u>3,275</u>	<u>3,283</u>	<u>3,371</u>	<u>13,090</u>
Income tax	836	430	1,254	737	3,258	867	729	740	817	3,154	961	996	998	1,025	3,979
Net income	<u>1,833</u>	<u>599</u>	<u>2,520</u>	<u>1,731</u>	<u>6,684</u>	<u>2,047</u>	<u>1,668</u>	<u>1,695</u>	<u>1,872</u>	<u>7,281</u>	<u>2,200</u>	<u>2,279</u>	<u>2,285</u>	<u>2,346</u>	<u>9,111</u>
EPS	<u>0.19</u>	<u>0.06</u>	<u>0.25</u>	<u>0.17</u>	<u>0.68</u>	<u>0.21</u>	<u>0.17</u>	<u>0.17</u>	<u>0.19</u>	<u>0.73</u>	<u>0.22</u>	<u>0.23</u>	<u>0.23</u>	<u>0.24</u>	<u>0.92</u>
Shares Outstanding	9,833	9,906	9,919	9,928	9,896	9,917	9,910	9,910	9,910	9,912	9,910	9,910	9,910	9,910	9,910
<u>Margin Analysis</u>															
Gross margin	24.0%	21.6%	25.1%	22.0%	23.2%	23.2%	24.0%	24.0%	24.0%	23.8%	24.0%	24.0%	24.0%	24.0%	24.0%
SG&A	16.4%	17.0%	15.5%	15.7%	16.1%	15.9%	17.1%	16.9%	16.6%	16.6%	16.2%	16.1%	16.0%	15.7%	16.0%
Operating margin	7.5%	4.6%	9.6%	6.3%	7.0%	7.3%	6.9%	7.1%	7.4%	7.2%	7.8%	7.9%	8.0%	8.3%	8.0%
Tax rate	31.3%	41.8%	33.2%	29.9%	32.8%	29.8%	30.4%	30.4%	30.4%	29.8%	30.4%	30.4%	30.4%	30.4%	30.4%
Net margin	4.6%	1.4%	5.6%	4.0%	3.9%	4.3%	3.7%	4.0%	4.3%	4.1%	4.6%	4.7%	4.8%	5.0%	4.8%
<u>Year / Year Growth</u>															
Total Revenues					18.9%	19.7%	5.9%	(4.4)%	0.3%	5.0%	(0.7)%	8.4%	11.0%	6.7%	6.2%
Net Income					32.9%	11.7%	178.5%	(32.7)%	8.1%	8.9%	7.5%	36.7%	34.8%	25.4%	25.1%
EPS					13.2%	10.7%	178.4%	(32.7)%	8.3%	8.8%	7.6%	36.7%	34.8%	25.4%	25.1%

Source: Company filings and Taglich Brothers' estimates

Unique Fabricating, Inc.

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

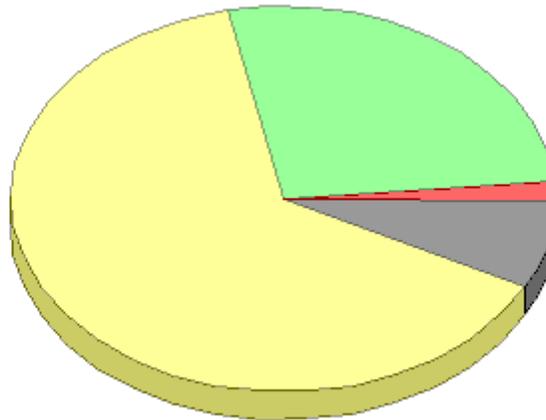
	FY15A	FY16A	6m17A	FY17E	FY18E
Net income	5,029	6,684	3,715	7,281	9,111
Depreciation and amortization	3,903	5,502	3,108	6,233	6,452
Amortization of debt issuance costs	270	128	66	132	132
(Gain) loss on sale of assets	48	(127)	(17)	(17)	-
Loss on extinguishment of debt	387	60	-	-	-
Bad debt adjustment	(37)	(274)	65	65	-
Loss (gain) on derivative instruments	(40)	22	(189)	(189)	-
Stock option expense	206	166	75	150	150
Deferred taxes	(496)	(1,166)	240	115	(132)
Cash earnings (loss)	9,270	10,995	7,063	13,770	15,713
<i>Changes in assets and liabilities</i>					
Accounts receivable	(695)	(3,987)	(3,581)	(1,343)	(1,739)
Inventory	(2,982)	340	345	(703)	(1,020)
Prepaid expenses and other assets	6	(1,292)	(1,576)	(1,576)	-
Accounts payable	(158)	1,330	214	565	820
Accrued and other liabilities	(360)	375	(752)	41	-
(Increase) decrease in working capital	(4,189)	(3,234)	(5,350)	(3,015)	(1,939)
Net cash provided by (used in) operations	5,081	7,761	1,713	10,755	13,774
Purchase of property and equipment	(3,566)	(3,362)	(2,416)	(5,300)	(5,300)
Proceeds from sale of property and equipment	74	2,187	24	24	-
Acquisition of Intasco	-	(21,031)	-	-	-
Working capital adjustment related to Intasco	-	213	-	-	-
Acquisition of Great Lakes Foam Technologies	(11,820)	-	-	-	-
Working capital adjustment related to Great Lakes Foam	(127)	-	-	-	-
Net cash provided by (used in) investing	(15,439)	(21,993)	(2,392)	(5,276)	(5,300)
Net change in bank overdraft	660	549	(805)	(805)	-
Proceeds from debt	-	32,000	-	-	-
Payments on term loans	(15,151)	(2,444)	(1,775)	(2,975)	(3,000)
Proceeds from revolving facilities	5,835	5,690	6,247	4,247	-
Debt issuance costs	-	(514)	-	-	-
Pay-off of old senior credit facility	-	(15,375)	-	-	-
Post acquisition payments for Unique Fabricating	(755)	-	-	-	-
Proceeds from issuance of common stock	25,674	-	-	-	-
Payment of initial public offering costs	(3,453)	-	-	-	-
Proceeds from exercise of stock options and warrants	397	116	37	74	74
Distribution of cash dividends	(2,878)	(5,812)	(2,923)	(5,840)	(5,840)
Net cash provided by (used in) financing	10,329	14,210	781	(5,299)	(8,766)
Net change in cash	(29)	(21)	101	180	(292)
Cash - beginning of period	756	727	706	706	886
Cash - end of period	727	706	807	886	594

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



■ 26.87 % Buy ■ 64.18 % Hold ■ 7.46 % Not Rated ■ 1.49 % Sell

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

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 513,660 shares of UFAB common stock and 10,587 warrants. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 497,194 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 221,420 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. 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. also own or have controlling interests in 77,635 shares of UFAB common stock and 24,900 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

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

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.