UFP Technologies (UFPT)

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- I am not a registered investment advisor and I do not offer any investment advise
- No parts of this talk are suggestions to invest, not invest, buy or sell any kind of securities or other financial instruments

UFP Technologies – business

- Engineered packaging solutions for medical and scientific, automotive, aerospace and defense, computer and electronics, industrial, and consumer markets.
- Packaging products primarily using polyethylene, polyurethane, cross-linked polyethylene foams, and rigid plastics
- End-cap packs for computers, corner blocks for telecommunications consoles, anti-static foam packs for printed circuit boards, die-cut or routed inserts for cases, molded foam enclosures for orthopedic products, and plastic trays for medical devices and components.
- Fabricates and molds component products from cross-linked polyethylene foam and other materials, as well as engages in laminating fabrics and other materials to cross-linked polyethylene foams, polyurethane foams, and other substrates
- Component products: automotive interior trim, athletic padding, industrial safety belts, medical device components, air filtration, high-temperature insulation, abrasive nail files and other beauty aids, anti-fatigue mats, and shock absorbing inserts used in athletic and leisure footwear.
- United Foam, Simco Automotive, and Molded Fiber brand names
- Company founded in 1963, headquartered in Georgetown, Massachusetts.

UFP Technologies – business (cont’d)

UFP Technologies – Misc thoughts

- What can go wrong?
  - Too cheap, commodity business
  - Packaging manufactured close to product manufacturing – manufacturing outsourcing abroad means less sales for packaging
  - Single auto program 8% of total sales may end in 2011
- Opportunities:
  - Some environmental regulations may limit foreign outsourcing
  - Medical, etc. packaging?
  - 2008/2009 positive acquisitions

Strategic considerations

- Moat (*switching costs, habit, low cost*):
  - What are the moats? Unclear
  - What does it take to sustain the moats? Unclear
  - Bargaining power of suppliers/customers? Large customers probably have a lot of power (top 10 customers 32% sales)
- Is it a low risk business? No?
- Is there high uncertainty? Yes
- How capital intensive is the business? ?
- Future growth – unknown
- Are the revenues and cash flows of the business sustainable or overstated / understated due to boom or bust conditions? Not clear

Management

- I don’t usually do management analysis. Included for template completeness
- No dilution
- Can I trust management?
- Management shareholding (> 10%)
- Management incentives?
- Are the salaries too high?
- Is there heavy insider buying?
- Is there heavy insider selling?
- Do I like the management? (Operators, capital allocators, integrity)
- Profitable reinvestment
- What has management done with the cash?
- Where is Free Cash Flow invested? Share buybacks, dividends, reinvested, ROE & ROCE, incremental BV

Is it a good business?

- 6 year history of profits
- ROE:
  - 2008:16.3 2009:15.3 2010h1:17.2
- Margins
  - 2008: 4.6 2009:6 2010:6.4
- Growing earnings: 3 year sales growth 8%, earnings growth 22%
- About 20% dilution from 2005
- Very strong balance sheet
  - Cash covers all liabilities
- ROIC = Earnings / (Equity + Debt – Cash) = Earnings / (Assets – non-debt liabilities - Cash)
  - ~= ROE

Is it a good business? Cash flow

- Strong cash flow
  - H1 3.8M earnings, 5M operating cash flow, 4M FCF (FCF = OCF – capital expenditures)
  - Operating cash flow higher than earnings
  - Free Cash Flow/Share higher than dividends paid

Is business cheap? – Buffettology calculations

- ROE 15%
- Earnings in 10 years = ROE*Equity*$(1+ROE)^9$ = $23M
- Equity in 10 years = Equity*$(1+ROE)^9$ = 155M
- Market cap = 155M x P/E (15) = $348M
- Rate of return = ~14.6% after tax (calculations omitted)

- 9 year earnings growth: 17%. Assuming same earnings growth for 10 years into the future and 15 PE at the end, shareprice would grow 19% annually. Assuming 15% earnings growth: 18% share price growth.
- Not clear if the recent performance can be repeated for 10 years either in equity or earnings

Is business cheap? DCF

- Discounted cash flow
  - Current earnings of ~2B
  - 10% growth for 5 years, leveling after that
    - 10% discount -> $112M current valuation (if you buy company at <$112M, you will get 10% return or higher)
    - 15% discount -> $73M current valuation
  - 5% growth for 10 years, leveling after that
    - 15% discount -> $67M current valuation
- Owner's yield = earnings / (market cap + debt - cash) = earnings/EV
  - 7.5M / (75M+9M-19M) = 11.6%

- What makes up the margin of safety? Low valuation
- Is there a sufficient margin of safety? Not clear

Is business cheap? – Graham investment considerations

- N/A for UFPT – included for completeness
- 1.7 P/Book – not a net net
- Altman Z score (http://en.wikipedia.org/wiki/Altman_Z-score)