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)
  • \approx 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)