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Research Report – Update

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

Orchids Paper Products Company

Rating: Speculative Buy

John Nobile
April 4, 2016

TIS $27.96 — (NYSE MKT)

	2014A	2015A	2016E	2017E
Revenues (millions)	$142.7	$168.4	$190.7	$212.5
Earnings per share	$1.11	$1.38	$1.38	$1.88

52-Week range	$32.50 – $21.42	Fiscal year ends:	December
Shares outstanding as/of 3/1/16	10.3 million	Revenue per share (TTM)	$17.11
Approximate float	9.4 million	Price/Sales (TTM)	1.6X
Market capitalization	$288 million	Price/Sales (FY2017)E	1.4X
Tangible book value/share	$10.76	Price/Earnings (TTM)	20.3X
Price/tangible book value	2.6X	Price/Earnings (FY2017)E	14.9X
Annual dividend	$1.40	Dividend Yield	5.0%

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, known as parent rolls, and converts parent rolls into a full line of tissue products, including paper towels, bathroom tissue and paper napkins primarily for the private label segment of the consumer, or "at home," market. The company has focused its product design and manufacturing on the discount retail market, primarily the dollar store retailers. (www.orchidspaper.com)

Key investment considerations:

Reiterating Speculative Buy rating. Lowering 12-month price target to $32.00 from $34.50 previously due to diminished valuation.

The company's five-year growth potential is substantial due to geographic expansion; the 2014 acquisitions, and plant upgrades.

Total converted tonnage (from Oklahoma, Fabrica and South Carolina) should increase to 92,000 tons in 2016, up from 83,000 tons in 2015. With production from converting lines in South Carolina, we project Orchids will sell total converted tonnage of 100,000 tons in 2017.

We project 2016 revenue of $190.7 million and EPS of $1.38. The reduction in our projections (previously $198.8 million revenue and EPS of $1.82) reflects a reduction in our South Carolina converted tonnage estimate to more accurately portray a partial year of shipments versus a full year as we previously projected.

We project 2017 revenue of $212.5 million and EPS of $1.88 driven by a full year of production from the first converting line in South Carolina and contribution from a second converting line.

Orchids reported (10K released 3/7/16) 4Q15 revenue of $41.9 million and EPS of $0.36. We projected 4Q15 revenue of $45 million and EPS of $0.37. In the year earlier quarter, Orchids generated revenue of $41.3 million and EPS of $0.28. 4Q15 revenue was adversely affected by approximately $4 million as one of the company's main converting lines in Oklahoma was down for approximately eight weeks.

Please view our disclosures on pages 13 - 15.

Recommendation and Valuation

Reiterating Speculative Buy rating. Lowering 12-month price target to $32.00 from $34.50 previously due to diminished valuation.

Shares of Orchids currently trade at a TTM EPS multiple of 20X, down from 23X three months earlier, due arguably to a drop in converted product sales (4Q15 converted product sales down 3% to $40.2 million). In light of TIS's diminished valuation, we lowered our multiple to 18X earnings (down from 19X previously). Applying a multiple of 18X to our 2017 EPS estimate, discounted to account for execution risk, gives us a year-ahead value of approximately $32.00 per share.

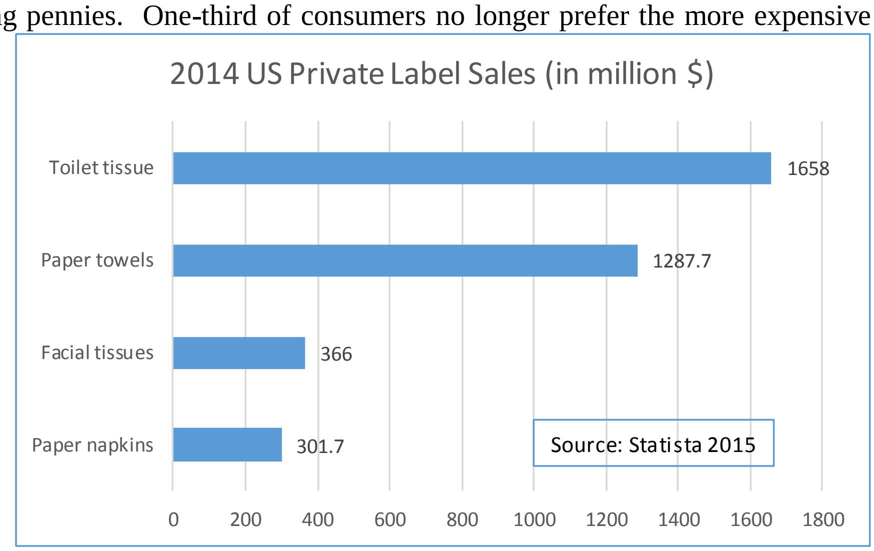
Business

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, converting it into a full line of tissue products, including paper towels, bathroom tissue and paper napkins primarily for the private label segment of the consumer or "at home" market. The company targets the discount retail market, primarily dollar store retailers, due to their consistent order patterns, limited number of stock keeping units (SKUs) and the growth in this channel of the retail market. Orchids has customers throughout the US, but its sales efforts are currently focused within a 500-mile radius of its Oklahoma facility or Fabrica's Mexicali, Mexico facility (which supplies TIS with converted products to the West Coast), both cost-effective shipping areas.

The company's products are sold primarily under its customers' private labels and, to a lesser extent, brand names such as Colortex®, My Size®, and Velvet®. Orchids does not have supply contracts with any of its customers. Orchids' products are daily consumable items so order streams are fairly constant with no significant seasonal fluctuations. Changes in the national economy do not materially affect the market for Orchids' products.

Private Label Market and Outlook

In March 2016, the Private Label Manufacturers Association (PLMA) said that private label brands had reached approximately $118.4 billion in US sales in 2015, an increase of 2% over 2014 which was equal to the growth rate of national brands. The PLMA said that while the number of consumers cutting back on spending has stabilized, Americans were still pinching pennies. One-third of consumers no longer prefer the more expensive brand, having realized that the store brand offers better value for the money and is of higher-than-expected quality.



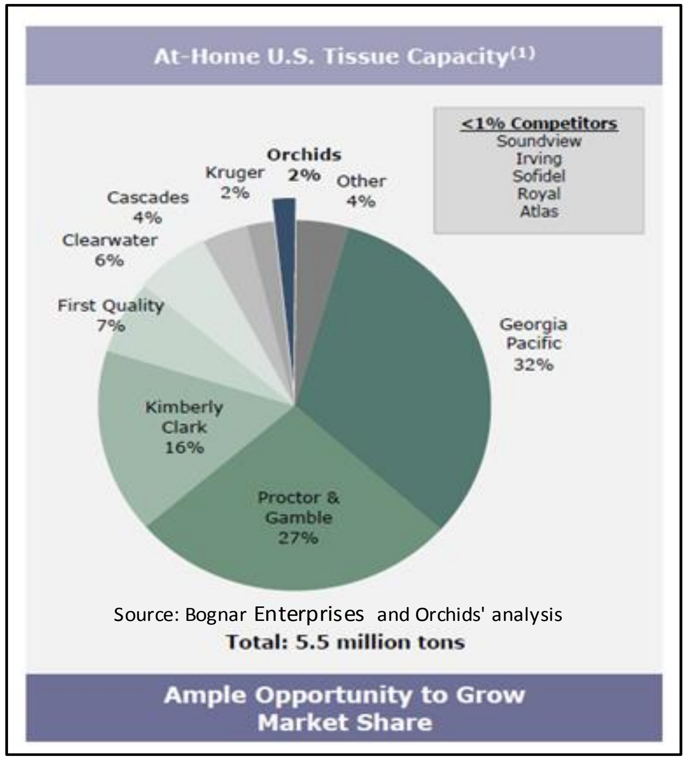
In October 2015, the statistics website Statista.com reported that US sales of private label paper products were approximately $3.6 billion in 2014. Toilet tissue accounted for the greatest percentage of sales at 46%, followed by paper towels at 36%, facial tissue at 10%, and paper napkins at 8% (see chart at right).

In September 2015, international consulting and engineering company Pöyry said that private label tissue market penetration in North America was currently 27%, up from 18% a decade ago. Pöyry cited increased availability of high quality private label tissue products and recession awakened frugality as some of the key factors driving the success of private label tissue products.

In a June 2015 sanitary paper product manufacturing industry report, IBISWorld said that large discount retailers such as Walmart (accounted for 9% of Orchids' converted product sales in 2014) and Target were increasingly focusing on private-label goods that can provide higher margins. IBISWorld expects this trend to continue over the next five years. However, competition from lower-priced imports is expected to attenuate US growth resulting in moderate industry growth averaging 1.9% annually in the six years to 2020.

Market and Competition

In June 2015, IBISWorld estimated the 2015 US sanitary paper product market at $13.3 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $2.8 billion. The overall industry is projected to grow at an average annual growth rate of 1.9% to $14.9 billion by 2021.



Dollar and variety stores, Orchids' primary target markets, realized sales of $67 billion in 2014. In September 2015, IBISWorld projected dollar and variety stores' average revenue growth to decline 1.3% annually to $61.5 billion by 2021 as competition from rivals such as Walmart, Target and Costco increases.

Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of delivered product costs. Over the past five years, competitors (Clearwater Paper, Georgia-Pacific, Cascades, and Pacific Paper) have moved into Orchids' market areas, arguably drawn by attractive margins. The increased competition has reduced Orchids' competitive cost advantage and reduced gross margins from 29.2% in 2009 to 17.0% in 2010, and 16.3% in 2011. Orchids was able to reverse this downward trend as growing sales of higher margin converted products increased Orchids' gross margins to 22.4% in 2012, 24% in 2013. However, in 2014, gross margins fell to 18.7% due primarily to lower overhead coverage as the company shut down two of its older paper machines in September 2014 and started the construction and installation of a new paper machine. This reduced the absorption of fixed costs at Orchids' Oklahoma plant and required the company to purchase parent rolls in the open market. Gross margins fell further to 18% in 2015 due primarily to continued parent roll purchases in the open market in 1Q15 and an incident at one of the company's main converting lines which was out of commission for most of approximately eight weeks in 4Q15.

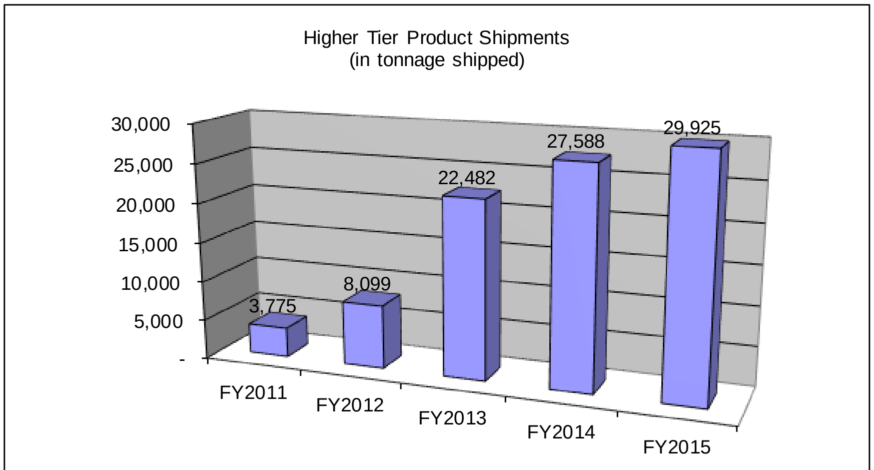
Clearwater Paper and Cascades are the only publicly held direct competitors. Revenue and gross margins for Orchids and its competitors are shown at right. These competitors' lower gross margins versus Orchids' could drive them to expand in Orchids' market, increasing pressure on Orchids' prices and margins.

	Clearwater Paper	Cascades	Orchids Paper
TTM Revenue (12/15)	$1.8B	$2.7B	$168.4M
TTM Gross Margin	13.7%	15.7%	18.1%

Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In June 2014, Orchids acquired Fabrica's US business, including certain manufacturing assets, and access to 19,800 metric tons of capacity each year to support the value, premium and ultra-premium requirements of the US market. The supply agreement with Fabrica provides access to an additional 7,700 tons in the first two years of the agreement for a total of up to 27,500 tons. The option for the additional tonnage expires at the end of 1H16. In 2Q15, Orchids began construction on an integrated tissue paper facility in Barnwell, SC with paper making capacity of between 35,000 and 40,000 tons per year and converting capacity of between 30,000 and 32,000 tons per year. The first converting line is expected to be operational by the end of 1Q16 and the second converting line is expected to be operational by the end of 2Q16. The paper machine is expected to be operational by the beginning of 2017.

Orchids plans to expand into retail channels such as grocery stores, mass merchandise and other discount retail sectors. Initial efforts to expand into these other channels previously had limited success due to capacity constraints and the inability to produce higher grade products. However, these shortcomings have been overcome by investing in a new converting line and developing new, higher grade products.



Source: Company filings

The graph at right shows how shipments of Orchids' higher grade converted products have grown over the past five years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing).

4Q and FY 2015 Financial Results

<u>*4Q15*</u> - Sales of $41.9 million were up 1% from the comparable period in 2014. Net income was $3.7 million or $0.36 per share versus net income of $2.4 million or $0.28 per share. We projected 4Q15 sales of $45 million and net income of $3.9 million or $0.37 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased 3% to $40.2 million while parent roll (bulk tissue paper) sales were $1.7 million (there were no parent roll sales in 4Q15 due to the demolition of older paper machines resulting in no excess parent rolls to sell on the open market). The decrease in converted product sales was primarily due to an incident at one of the company's main converting lines which was out of commission for approximately eight weeks.

Gross margins increased to 19.4% from 15.6% primarily due to lower operating costs associated with the new paper machine in Oklahoma.

Selling, general and administrative (SG&A) expenses decreased to $2.4 million from $2.5 million and the company recognized $377,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income increased to $5.4 million or 12.9% of sales from $3.6 million or 8.7% of sales.

<u>*FY 2015*</u> - Sales of $168.4 million were up 18% from the comparable period in 2014. Net income was $13.6 million or $1.38 per share versus net income of $9.5 million or $1.11 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 16% to $161.1 million while parent roll (bulk tissue paper) sales increased 70% to $7.4 million. The increase in converted product sales was due to a 22% increase in tonnage shipped to 82,972 (due primarily to a full year of shipments under the supply agreement with Fabrica), partly offset by a 5% decrease in net selling prices to $1,941/ton. The decrease in net selling price was primarily due to product mix (away-from-home products acquired in the Fabrica transaction have lower selling prices than Orchids' core at-home products). The increase in parent roll sales was due to a 51% increase in tonnage shipped (generated by the new paper machine in Oklahoma) and a 13% increase in selling prices to $994/ton.

Gross margins decreased to 18.1% from 18.7% due primarily to lower average selling prices, higher raw material costs, and an incident at one of the company's main converting lines which was out of commission for approximately eight weeks.

Selling, general and administrative (SG&A) expenses decreased to $9.5 million from $11.7 million due primarily to $1.6 million of acquisition costs related to the Fabrica transaction in 2014 and a decrease in commissions related to product mix. The company recognized $1.5 million of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income increased to $19.5 million or 11.5% of sales from $14.3 million or 10% of sales.

Liquidity - Based on our forecasts, Orchids should need to raise a little over $100 million in additional debt over the next two years in order to meet its financial obligations through 2017. We project increased interest payments through 2017. As of December 31, 2015, Orchids had cash of $4.4 million, a current ratio of 2.1X versus 2X for the paper products industry, and a debt/equity ratio of 0.6X versus 0.9X for the industry. Orchids' total debt has more than doubled over the past year to over $75 million in 4Q15 from approximately $36 million at the end of 2014. The increase in debt was to fund the expansion into South Carolina and capital expenditures (details provided below).

Cash from operations of $18.8 million in 2015 was primarily due to cash earnings of $30.3 million and an $11.5 million increase in working capital. The increase in working capital was primarily due to increases in accounts receivable, inventory, and taxes receivable. Cash from operations, a $42.6 million net increase in debt and $32.2 million from a stock offering, were partially offset by capital expenditures of $63.2 million, a $12 million increase in restricted cash, and $13.8 million in dividend payments, resulting primarily in a $3.3 million increase in cash to $4.4 million as of December 31, 2015.

In June 2015, Orchids entered into an amended, five year, $187.3 million credit agreement with US Bank National Association. The agreement includes a $25 million revolving credit line, a $47.3 million term loan, a $115 million delayed draw term loan with a two year draw period, and an accordion feature allowing the revolving credit line and/or delayed draw commitment to be increased by up to $50 million at any time during the credit agreement. Advances under the facility bear interest at a variable rate of LIBOR plus a margin of 1.25% to 2.50% depending on the company's leverage ratio, or a base rate plus a margin of up to 0.25% at the company's option.

The credit agreement contains covenants that require Orchids to maintain specific fixed charge coverage and leverage ratios. As of December 31, 2015, the company was in compliance with those covenants.

In December 2015, Orchids received approximately $5.1 million in net proceeds from financing agreements related to capital expenditures at its Barnwell, South Carolina facility. This financing arrangement, structured with a third party financial institution associated with U.S. Bank and two entities majority owned by U.S. Bank, was designed to qualify under the federal New Market Tax Credit program. These loans bear interest at a fixed rate of 1.275%.

In September 2014, Orchids entered into an agreement with the Oklahoma Development Finance Authority (ODFA) whereby the ODFA agreed to provide the company up to $3.5 million to fund a portion of the cost of a new paper production line. The agreement provides for Orchids' Oklahoma state withholding payroll taxes to be placed into a revolving fund held by ODFA. Each year on September 1, beginning in 2015 and ending in 2020, the ODFA will return these state withholding taxes in the revolving fund to the company, up to an amount totaling $3.5 million. These amounts are recognized as a note receivable in other current assets in the balance sheet and in other income in the income statement. The company recognized income of $685,000 in 2015 related to this agreement.

Projections

Orchids' annual run rate in 2015 was approximately 85,000 tons of converted product out of Oklahoma and Fabrica (excluding the 2,000 ton shortfall in 4Q15 due to one of the company's main converting lines being out of commission for approximately eight weeks). With contribution from Orchids' new plant in South Carolina, we project Orchids will sell total converted tonnage (from Oklahoma, Fabrica and South Carolina) of approximately 92,000 tons in 2016. Our 2016 projection is lower than our previous projection of 98,400 tons due primarily to a reduction in our South Carolina converted shipment projection to 7,500 tons from 15,000 tons to more accurately portray a partial year of shipments versus a full year as we previously projected (takes into account the line not producing at full capacity until the end of 2Q16). With a full year of full capacity production from the first converting line in South Carolina, and contribution from a second converting line, we project Orchids will sell total converted tonnage of 100,000 tons in 2017. We project parent roll shipments to remain near current levels.

Revenue Model

2014	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	67,870	$ 2,039	$ 138,382
Parent Roll	4,922	$ 882	$ 4,342
Total	72,792	$ 1,961	$ 142,724
2015	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	82,972	$ 1,941	$ 161,052
Parent Roll	7,436	$ 994	$ 7,394
Total	90,408	$ 1,863	$ 168,446
2016	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	92,000	$ 1,995	$ 183,540
Parent Roll	7,000	$ 1,022	$ 7,154
Total	99,000	$ 1,926	$ 190,694
2017	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	100,000	$ 2,051	$ 205,100
Parent Roll	7,000	$ 1,050	$ 7,350
Total	107,000	$ 1,986	$ 212,450

Source: Company filings and Taglich Brothers estimates

We project 2016 selling prices of $1,995/ton for converted products and $1,022/ton for parent rolls, consistent with the 2.8% increase in paper selling prices projected by IBISWorld. For 2017, we project selling prices of $2,051/ton for converted products and $1,050/ton for parent rolls. Paper price gains are supported by the fact that falling demand is being outpaced by contracting supply which should result in slowly increasing prices.

Orchids currently ships to customers on the East Coast and the new South Carolina location should reduce overall freight costs. However, as the new paper machine is not expected to be operational until early 2017, Orchids will be buying parent rolls in the secondary market in 2016 which should constrain gross margins (see table at right). We project gross margins increasing in 2017 as converted product sales increase and the higher cost of purchasing parent rolls in the secondary market (as seen in 2014, 2015, and 2016 margins) will have been eliminated.

	2011A	2012A	2013A	2014A	2015A	2016E	2017E
Conv. Tons	39,104	43,661	52,592	67,870	82,972	92,000	100,000
Total Tons	55,514	53,995	59,318	72,792	90,408	99,000	107,000
Conv. Ton %	70.4%	80.9%	88.7%	93.2%	91.8%	92.9%	93.5%
Gross Margin	16.3%	22.4%	24.0%	18.7%	18.1%	17.5%	20.0%

Source: Company filings and Taglich Brothers estimates

Orchids' agreement with Fabrica provides for the purchase of up to 19,800 tons of converted product annually with the option to purchase an additional 7,700 tons annually in each of the first two years. As the option to purchase the additional tonnage ends in 2H16, we project a reduction in 2016 Fabrica converted tonnage to 23,650 from 24,500 tons in 2015. Helping to offset this reduction in tonnage should be the contribution from Orchids' new plant in South Carolina. Orchids' currently has commitments to sell out its first converted product line (annual capacity of approximately 15,000 tons) in South Carolina by the end of 2Q16, at which time the start-up of the second converting line (annual capacity of approximately 15,000 tons) is expected.

There are no sales contracts guaranteeing these orders. However, customer order streams are fairly constant and typically last several years.

2016 - We project revenue of $190.7 million and net income of $14.3 million or $1.38 per share. The change in our projections (previously $198.8 million revenue and $19 million or $1.82 per share net income) reflects a reduction in our South Carolina converted tonnage estimate to more accurately portray a partial year of shipments versus a full year as we previously projected.

We project SG&A expenses of $10.2 million in 2016 (of which approximately 1% or $1.9 million of sales are commission-related). Operating margins are projected to remain flat at 11.5%. Interest expense is projected to increase to $954,000 from $521,000 due to higher debt levels. Much of the interest associated with the added debt for the company's South Carolina project will be capitalized and depreciated. The tax rate is estimated at 32%.

For 2016 we project Orchids will generate $30.3 million cash from operations primarily from cash earnings. Cash from operations will not cover our projected $96 million in capital expenditures (primarily for South Carolina facility) and $13.8 million in dividend payments requiring the company to raise over $80 million from increased debt. We project a $654,000 increase in cash to $5 million at December 31, 2016.

2017 - We project revenue of $212.5 million and net income of $19.4 million or $1.88 per share. Revenue gains should be driven by a full year of production from the first converting line in South Carolina and contribution from a second converting line.

We project SG&A expenses of $11.1 million in 2017 (of which approximately 1% or $2.1 million of sales are commission-related). Operating margins are projected to increase to 14.2% from 11.5% due primarily to gross profit gains of approximately $9.1 million. Interest expense is projected to increase to $1.6 million from $954,000 due to higher debt levels. Much of the interest associated with the added debt for the company's South Carolina project will be capitalized and depreciated. The tax rate is estimated at 32%.

For 2017 we project Orchids will generate $37.1 million cash from operations primarily from cash earnings. Cash from operations will not cover our projected $52 million in capital expenditures (primarily for South Carolina facility) and $13.8 million in dividend payments requiring the company to raise nearly $30 million from increased debt. We project a $3.6 million decrease in cash to $1.4 million at December 31, 2017.

Risks

Customer concentration

Three customers (Dollar General, Family Dollar and HEB) accounted for approximately 61% of total sales in 2015. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition

Competitors have penetrated Orchids' operating region. More intense competition in the company's market has reduced some of its competitive cost advantages and put pressure on selling prices.

Orchids may not be able to sell the capacity from its expanded converting line

Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

Fabrica acquisition

In June 2014, Orchids acquired various assets and business operations from Fabrica. There can be no assurance that Orchids will fully realize the anticipated benefits of the transaction. Further, as a result of the Fabrica transaction, Orchids' indebtedness is now greater than it was prior to the acquisition.

South Carolina construction project

Orchids' South Carolina construction project began in 2015 with the first converting line expected to be operational by the end of 1Q16, the second in 2Q16, and the new paper machine in early 2017. Total cost is estimated at $136 million over a two year period. There can be no assurance that the construction, installation, and ramp of production will proceed as scheduled, for the anticipated costs, or at all.

No reliance on contracts

Sales contracts are not the norm in the industry. Although orders typically result in multi-year revenue streams, there can be no guarantee as to their length.

Liquidity risk

Microcap stocks typically have small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 9.4 million shares in the float with an average daily volume of approximately 68,000 shares.

Miscellaneous risks

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

Consolidated Balance Sheets
(in thousands $)

	2013A	2014A	2015A	2016E	2017E
Cash	7,205	1,021	4,361	5,015	1,423
Accounts receivable	6,585	10,195	11,834	13,397	14,925
Inventories	10,921	9,650	13,501	15,396	16,634
Short term investments	5,035	-	-	-	-
Income taxes receivable	-	634	5,628	5,628	5,628
Prepaid expenses	863	1,285	1,136	1,136	1,136
Other	146	899	1,853	1,853	1,853
Deferred income taxes	552	614	1,300	1,300	1,300
Total current assets	31,307	24,298	39,613	43,725	42,900
Property, plant and equipment	95,745	119,720	173,378	254,197	289,245
Restricted cash	-	-	12,005	12,005	12,005
VAT receivable	-	1,734	1,751	1,751	1,751
Intangible assets	-	17,237	15,730	14,530	13,630
Goodwill	-	7,560	7,560	7,560	7,560
Deferred debt issuance costs	40	190	1,342	1,342	1,342
Total Assets	127,092	170,739	251,379	335,110	368,433
Bank overdrafts	-	1,706	-	-	-
Accounts payable	3,685	11,391	11,098	12,656	13,673
Accrued liabilities	4,030	3,747	3,880	4,393	4,894
Current portion of long-term debt	1,152	2,700	3,882	3,882	3,882
Total current liabilities	8,867	19,544	18,860	20,930	22,449
Long-term debt	13,927	33,662	71,699	151,699	176,699
Other	-	-	5,098	5,098	5,098
Deferred income taxes	19,449	17,020	21,939	21,939	21,939
Total liabilities	42,243	70,226	117,596	199,666	226,185
Total stockholders' equity	84,849	100,513	133,783	135,444	142,248
Total liabilities & stockholders' equity	127,092	170,739	251,379	335,110	368,433

Source: Company filings and Taglich Brothers' estimates

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

	2013A	2014A	2015A	2016E	2017E
Net sales	116,374	142,724	168,446	190,700	212,450
Cost of sales	88,494	115,985	137,949	157,309	169,960
Gross profit	27,880	26,739	30,497	33,391	42,490
Intangibles amortization		753	1,507	1,200	1,200
SG&A expenses	9,471	11,675	9,540	10,200	11,140
Operating income (loss)	18,409	14,311	19,450	21,991	30,150
Interest expense	371	271	521	954	1,552
Other (income) expense	(173)	181	(683)	-	-
Income (loss) before taxes	18,211	13,859	19,612	21,037	28,598
Income tax expense (benefit)	4,892	4,394	6,055	6,732	9,151
Net income (loss)	13,319	9,465	13,557	14,305	19,447
EPS	1.67	1.11	1.38	1.38	1.88
Shares Outstanding	7,937	8,539	9,844	10,350	10,350
Margin Analysis					
Gross margin	24.0%	18.7%	18.1%	17.5%	20.0%
SG&A expenses	8.1%	8.2%	5.7%	5.3%	5.2%
Operating margin	15.8%	10.0%	11.5%	11.5%	14.2%
Net margin	11.4%	6.6%	8.0%	7.5%	9.2%
Tax rate	26.9%	31.7%	30.9%	32.0%	32.0%
Year / Year Growth					
Total Revenues	15.4%	22.6%	18.0%	13.2%	11.4%
Net Income	43.9%	(28.9%)	43.2%	5.5%	35.9%
EPS	41.3%	(33.6%)	24.2%	0.4%	35.9%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2015, 2016, and 2017
(in thousands $)

	3/15A	6/15A	9/15A	12/15A	2015A	3/16E	6/16E	9/16E	12/16E	2016E	3/17E	6/17E	9/17E	12/17E	2017E
Net sales	37,415	42,295	46,832	41,904	168,446	46,000	47,500	49,000	48,200	190,700	51,000	53,700	54,500	53,250	212,450
Cost of sales	32,629	34,576	36,987	33,757	137,949	38,180	39,425	40,180	39,524	157,309	40,800	42,960	43,600	42,600	169,960
Gross profit	4,786	7,719	9,845	8,147	30,497	7,820	8,075	8,820	8,676	33,391	10,200	10,740	10,900	10,650	42,490
Intangibles amortization	377	377	376	377	1,507	300	300	300	300	1,200	300	300	300	300	1,200
SG&A expenses	2,497	2,240	2,437	2,366	9,540	2,460	2,540	2,620	2,580	10,200	2,610	2,860	2,910	2,760	11,140
Operating income (loss)	1,912	5,102	7,032	5,404	19,450	5,060	5,235	5,900	5,796	21,991	7,290	7,580	7,690	7,590	30,150
Interest expense	214	64	11	232	521	205	228	252	269	954	379	391	391	391	1,552
Other (income) expense	(186)	(152)	(169)	(176)	(683)	-	-	-	-	-	-	-	-	-	-
Income (loss) before taxes	1,884	5,190	7,190	5,348	19,612	4,855	5,007	5,648	5,527	21,037	6,911	7,189	7,299	7,199	28,598
Income tax expense (benefit)	648	1,312	2,448	1,647	6,055	1,554	1,602	1,807	1,769	6,732	2,212	2,300	2,336	2,304	9,151
Net income (loss)	1,236	3,878	4,742	3,701	13,557	3,301	3,405	3,841	3,758	14,305	4,699	4,889	4,963	4,895	19,447
EPS	0.14	0.39	0.45	0.36	1.38	0.32	0.33	0.37	0.36	1.38	0.45	0.47	0.48	0.47	1.88
Shares Outstanding	8,824	9,853	10,425	10,349	9,844	10,350	10,350	10,350	10,350	10,350	10,350	10,350	10,350	10,350	10,350
Margin Analysis															
Gross margin	12.8%	18.3%	21.0%	19.4%	18.1%	17.0%	17.0%	18.0%	18.0%	17.5%	20.0%	20.0%	20.0%	20.0%	20.0%
SG&A expenses	6.7%	5.3%	5.2%	5.6%	5.7%	5.3%	5.3%	5.3%	5.4%	5.3%	5.1%	5.3%	5.3%	5.2%	5.2%
Operating margin	5.1%	12.1%	15.0%	12.9%	11.5%	11.0%	11.0%	12.0%	12.0%	11.5%	14.3%	14.1%	14.1%	14.3%	14.2%
Net margin	3.3%	9.2%	10.1%	8.8%	8.0%	7.2%	7.2%	7.8%	7.8%	7.5%	9.2%	9.1%	9.1%	9.2%	9.2%
Tax rate	34.4%	25.3%	34.0%	30.8%	30.9%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Year / Year Growth															
Total Revenues	34.8%	44.9%	5.4%	1.4%	18.0%	22.9%	12.3%	4.6%	15.0%	13.2%	10.9%	13.1%	11.2%	10.5%	11.4%
Net Income	(53.2%)	NMF	23.8%	51.3%	43.2%	167.1%	(12.2%)	(19.0%)	1.5%	5.5%	42.3%	43.6%	29.2%	30.3%	35.9%
EPS	(56.8%)	NMF	3.4%	29.0%	24.2%	127.7%	(16.4%)	(18.4%)	1.5%	0.4%	42.3%	43.6%	29.2%	30.3%	35.9%

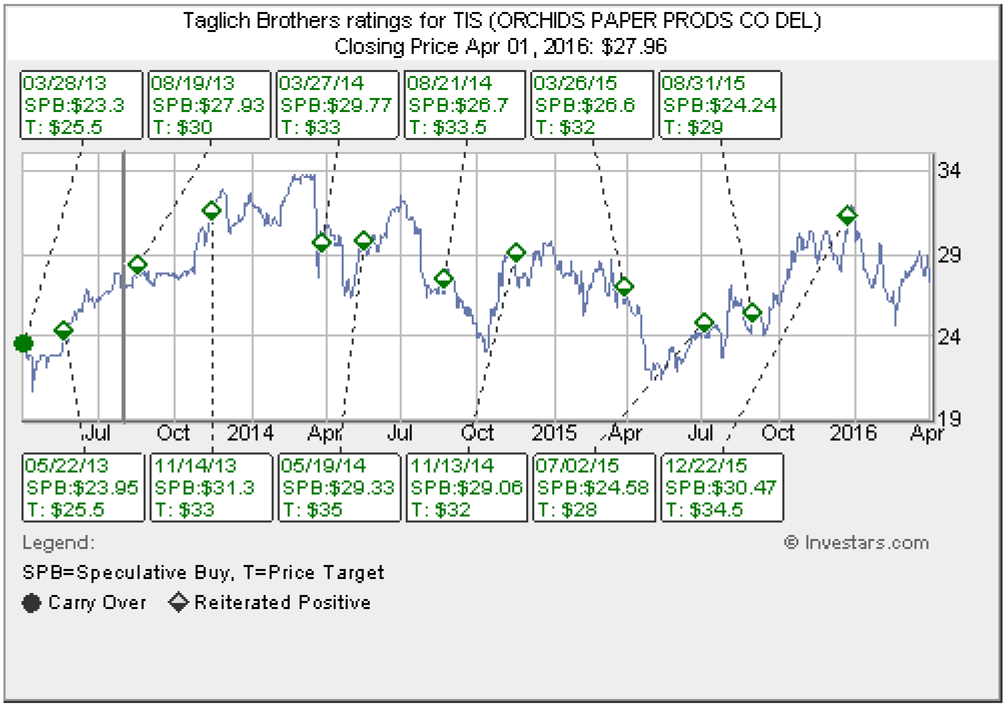
Source: Company filings and Taglich Brothers' estimates

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

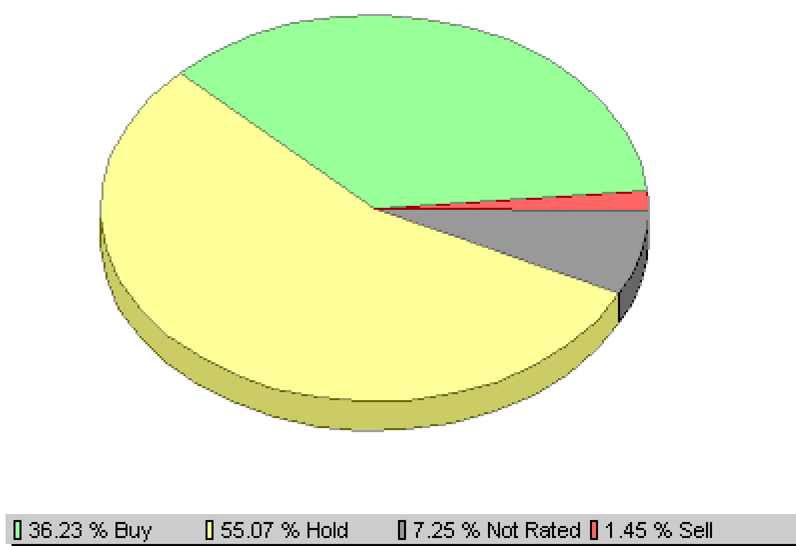
	2013A	2014A	2015A	2016E	2017E
Net income(loss)	13,319	9,465	13,557	14,305	19,447
Depreciation and amortization	7,621	9,749	11,420	15,946	17,852
Provision for doubful accounts	10	20	-	-	-
Deferred income taxes	(142)	(2,491)	4,235	-	-
Stock based compensation	346	1,879	1,048	1,000	1,000
(Gain) loss on disposal of property, plant and equipment	(146)	8	-	-	-
Cash earnings	21,008	18,630	30,260	31,251	38,299
Changes in assets and liabilities					
Accounts receivable	(1,189)	(2,556)	(1,640)	(1,563)	(1,528)
Inventories	(646)	1,272	(3,852)	(1,895)	(1,238)
Prepaid expenses	(226)	(422)	149	-	-
Income taxes receivable	607	(634)	(4,994)	435	-
Other current assets	44	(3,560)	(972)	-	-
Accounts payable	-	7,706	(293)	1,558	1,018
Acrrued liabilities	1,198	(284)	133	513	501
(Increase) decrease in working capital	(212)	1,522	(11,469)	(953)	(1,247)
Net Cash Provided by (Used in) Operations	20,796	20,152	18,791	30,298	37,051
Acquisition of Fabrica's US business	-	(16,700)	-	-	-
Proceeds from the sale of investment securities	(8)	5,037	-	-	-
Increase in restricted cash	-	-	(12,005)	-	-
Purchase of investment securities	-	(2)	-	-	-
Purchase of property and equipment	(12,171)	(25,769)	(63,184)	(96,000)	(52,000)
Net Cash Provided by (Used in) Investing	(12,179)	(37,434)	(75,189)	(96,000)	(52,000)
Borrowings on long-term debt	-	30,000	31,109	83,882	29,696
Proceeds under New Market Tax Credit financing	-	-	5,098	-	-
Principal payments on long-term debt	(1,152)	(16,429)	(2,700)	(3,882)	(4,696)
Net borrowings (repayments) on revolving credit line	-	7,712	10,810	-	-
Bank overdrafts	-	1,706	(1,706)	-	-
Proceeds from the exercise of stock options	3,305	79	210	210	210
Excess tax benefit of stock options exercised	1,409	20	(6)	(6)	(6)
Deferred debt issuance cost	-	(209)	(1,349)	-	-
Proceeds from sale of common stock	-	-	32,119	-	-
Dividends paid	(10,708)	(11,781)	(13,847)	(13,848)	(13,847)
Net Cash Provided by (Used in) Financing	(7,146)	11,098	59,738	66,356	11,357
Net Change in Cash	1,471	(6,184)	3,340	654	(3,592)
Cash - Beginning of Period	5,734	7,205	1,021	4,361	5,015
Cash - End of Period	7,205	1,021	4,361	5,015	1,423

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	7
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of TIS common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 123,473 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 5,197 shares of TIS common stock and 135,413 shares of restricted stock. Richard Oh, Managing Director of Taglich Brothers, Inc., owns 13,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 44,150 shares of TIS common stock and 38,750 stock options. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

All research issued by Taglich Brothers, Inc. is based on public information. From April 2008 to December 2012, the company paid a monthly monetary fee of $2,000 (USD) to 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

Cascades (OTC PK: CADNF)
Clearwater Paper (NYSE: CLW)
Dollar General (NYSE: DG)
Family Dollar (NYSE: FDO)
Wal-Mart (NYSE: WMT)

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.