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 23, 2018

TIS $7.08 — (NYSE MKT)

	2016A	2017A	2018E	2019E
Revenues (millions)	$164.5	$162.5	$203.0	$232.5
Earnings per share	$1.24	$0.64	$0.53	$1.77

52-Week range	$26.14 – $6.48	Fiscal year ends:	December
Shares outstanding as/of 3/1/18	10.7 million	Revenue per share (TTM)	$15.60
Approximate float	9.8 million	Price/Sales (TTM)	0.5X
Market capitalization	$76 million	Price/Sales (FY2019)E	0.3X
Tangible book value/share	$11.31	Price/Earnings (TTM)	11.1X
Price/tangible book value	0.6X	Price/Earnings (FY2019)E	4.0X

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures consumer tissue products. The company produces bulk tissue paper, known as parent rolls, and converts parent rolls into finished products, including paper towels, bathroom tissue and paper napkins.

Key investment considerations:

Reiterating Speculative Buy rating but lowering our 12-month price target to $11.00 from $16.00 per share due primarily to a longer than originally anticipated ramp in revenue.

Full implementation of a new ultra-premium product business award from a major customer has been delayed to 4Q18 from 2Q18 due to external forces the company believes are temporary.

The potential to increase converted product sales should come from its Barnwell South Carolina facility's ability to produce ultra-premium converted products. Orchids' private label competitors plan to expand their ultra-premium product capacity in light of the tight capacity the industry is currently experiencing. The expanded capacity from TIS' competitors is not expected to have an impact until 2019 and 2020, which should allow Orchids to gain market share in 2018.

Orchids reported (10K released 3/19/18) 4Q17 revenue of $43.5 million and EPS of $0.85 compared to revenue of $37.7 million and EPS of $0.25 in 4Q16. Included in 4Q17 net income was a one-time tax benefit of approximately $11 million or $1.05 per share related to recent tax law changes. We projected 4Q17 revenue of $44.5 million and a net loss of $(0.06) per share.

We project 2018 revenue of $203 million and EPS of $0.53, down from revenue of $220 million and EPS of $1.88 previously. Our lowered projections reflect a slower ramp in converted product sales than previously projected.

We project 2019 revenue of $232.5 million and EPS of $1.77. Revenue will be driven by a year of full implementation of new business from a significant customer.

We anticipate debt to have peaked in 2017. Orchids should generate $18.2 million and $32.5 million cash from operations in 2018 and 2019, respectively. This should help to reduce Orchids' total debt outstanding by approximately $39 million to $130 million by December 2019 from a peak of $169.2 million in December 2017.

Please view our disclosures on pages 12 - 14.

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Recommendation and Valuation

Reiterating Speculative Buy rating but lowering our 12-month price target to $11.00 from $16.00 per share due primarily to a longer than originally anticipated ramp in revenue.

Shares of Orchids Paper continue to trade at a significant forward discount to its peers (see chart below) due arguably to the company's 2017 net loss (its first in ten years when the tax benefit is excluded), a slower than originally anticipated ramp in new business, a high level of debt, suspension of its $1.40 per share annual dividend in 2017, and the reclassification of long-term bank debt to current.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2019 P/E
Procter & Gamble	PG	73.8	185,577	17.9	16.5
Kimberly-Clark	KMB	100.03	35,017	15.7	13.6
Cascades	CADNF	10.8	947	NMF	8.7
Clearwater Paper	CLW	26.85	442	13.6	12.2
Peer Average				**15.7**	**12.8**
Company					
Orchids Paper Products	**TIS**	**7.08**	**76**	**11.1**	**4.0**
Source: Taglich Brothers estimates, Thomson Reuters					

Orchids currently trades at a multiple of 4X our 2019 EPS projection while its peers trade at a multiple of 12.8X 2019 earnings. As revenue and earnings start to ramp and debt levels begin to diminish, TIS's multiple should expand towards its peers. We applied a multiple of 7X (down from 9X previously due to a longer than originally anticipated ramp in revenue) to our 2019 EPS projection of $1.77, discounted for execution risk, to obtain a year-ahead value of approximately $11.00 per share.

New CFO Appointed

On April 17, 2018, Orchids Paper Products Company announced the appointment of Mindy Bartel as Chief Financial Officer, effective immediately.

Prior to joining Orchids, Bartel served as Senior Vice President of Finance and Chief Financial Officer at Carlex Glass America, an original equipment manufacturer of automobile glass. Bartel has over 25 years of experience in manufacturing and technology service industries.

Business

Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures consumer tissue products. The company produces bulk tissue paper, known as parent rolls, and converts parent rolls into finished products, including paper towels, bathroom tissue and paper napkins. Excess parent rolls not that are not converted into finished products are typically sold to other converters.

Orchids predominately sells its products under private labels in the "at home" market, which consists primarily of dollar stores, discount retailers and grocery stores. The "at home" tissue market consists of several different quality levels, including a value tier, premium tier and ultra-premium tier. To a lesser extent, the company services customers in the "away from home" market, which includes companies in the janitorial market and food service market. Most of the products Orchids sells in the "away from home" market are value tier products.

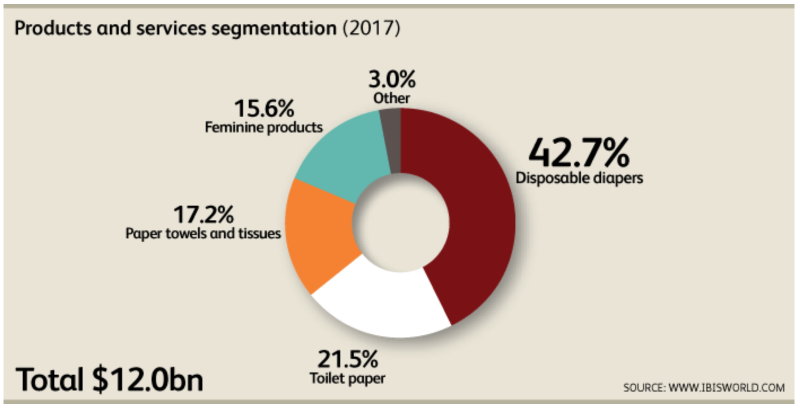
The company owns an integrated facility in Pryor, Oklahoma with modern paper making and converting equipment, which primarily services the central United States. Total annual parent roll capacity at Pryor is approximately 74,000 tons while converted product capacity is approximately 82,500 tons.

The company's 2014 transaction with Fabrica de Papel San Francisco, S.A. de C.V. (Fabrica), one of the largest tissue manufacturers by capacity in Mexico, enabled the company to expand its geographic footprint to the west coast. The Fabrica transaction provided Orchids with exclusive access to Fabrica's US customers and access of up to 19,800 tons of converted products annually year at cost.

The company also built a tissue operation in Barnwell, South Carolina that serves existing customers in Southeastern US states while enabling the company to penetrate new customers in the region. The facility has an annual parent roll capacity of 35,000 to 40,000 tons per year and converting capacity of up to 32,000 tons.

Market and Competition

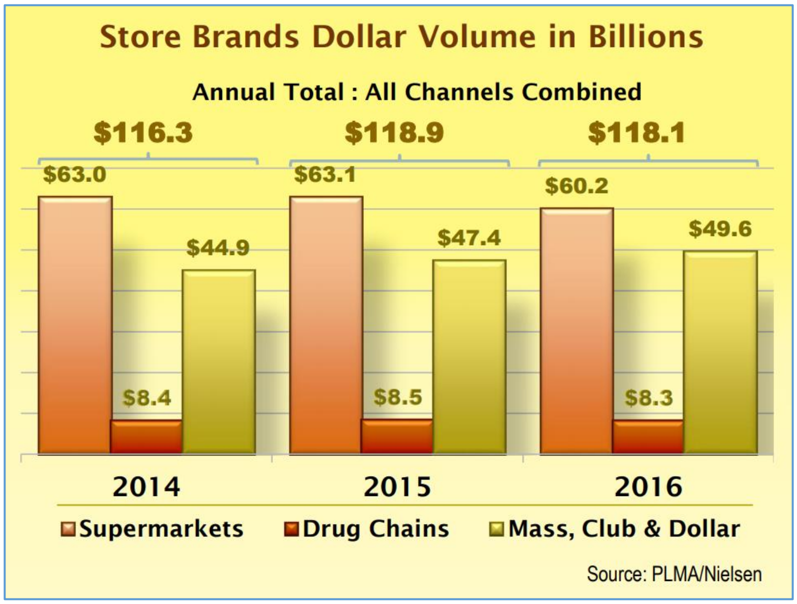
In October 2017, IBISWorld estimated the 2017 US sanitary paper product market at $12 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $5 billion. The overall industry is projected to grow at an average annual growth rate of 0.7% to $12.4 billion by 2023.



Dollar and variety stores, Orchids' primary target markets, are expected to realize sales of $73.5 billion in 2018. In March 2018, IBISWorld projected dollar and variety stores' average annual revenue growth of 1.5% to $80.2 billion by 2024 as increased competition from mass merchandisers and large superstores, such as Walmart, Target and Costco, slow growth (from 1.7% annually in the previous five year period).

Competition in the tissue market is significantly affected by geographic location, as freight costs represent a material portion of end-product costs. While Orchids believes it is economically feasible to ship within an approximate 900-mile radius of its production sites, the company's focus is on an approximate 500-mile radius as it believes this radius maximizes its freight cost advantage over its competitors. Competitors in the company's markets include the following private-label manufacturers: Georgia Pacific, Cascades, Sofidel, Clearwater Paper Corporation, Kruger Inc., Resolute Forest Products, Royal Paper, and Asia Pulp and Paper.

Private Label Market



In the Private Label Manufacturers Association (PLMA)'s 2017 Private Label Yearbook, sales of private label products were shown to have grown from $116.3 billion in 2014 to $118.1 billion in 2016 (latest available figures, see chart at right). Private label paper products were the second largest contributor to total private label sales (second only to milk) and accounted for approximately 6% of all private label sales. The PLMA observed that consumers saved money during the recession by switching to private label store brands and were not returning to higher-priced options. Having realized that the store brands offered better value for the money and higher-than-expected quality, one-third of consumers no longer prefer more expensive national brands.

Strategy

Orchids aims to increase sales of its converted products. Part of the company's strategy to optimize converted product sales is to increase sales of its premium and ultra-premium tier products, as these products typically have higher gross margins than value tier products. Prior to the completion of the Barnwell, South Carolina paper mill, Orchids was only able to manufacture a relatively small volume of structured tissue/ultra-premium products through its agreement with Fabrica. With the completion of the mill at Barnwell, expectations are for the company to produce and sell 35,000 tons, or more, of ultra-premium grade paper at relatively higher margins in 2018.

Orchids' ability to increase sales depends significantly upon ramping-up new business that was already promised, winning new private label bids, and growing its own brands. The company has been successful in its bidding with new and existing retailers and expanding into new distribution channels and into premium and ultra-premium tier markets. Orchids is currently focusing on diversifying its customer base and reducing customer concentration.

Projections

Basis of Forecast

In August 2017, Orchids acquired significant business from a new customer. The new business is for ultra-premium products, the majority of which are expected to be produced in Orchid's new Barnwell, SC plant. The new business should improve capacity utilization and allow Orchids to take advantage of operating leverage. Volume from this customer is expected to rank it as one of Orchids' top five customers when fully implemented. Shipments began in late 4Q17 with full implementation expected to occur in 4Q18. Prior expectations was for full implementation in 2Q18. The delay is due to external forces.

The new business, combined with business that was announced earlier in 2017 and with existing customer volumes, could provide an annual sales run-rate of between $220 million and $240 million when fully implemented.

The potential to increase converted product sales should come from Barnwell's ability to produce ultra-premium converted products. Orchids' private label competitors plan to expand their ultra-premium product capacity in light of the tight capacity the industry is currently experiencing. The new capacity from competitors is not expected to have an impact until 2019 and 2020, which should allow Orchids to gain market share in 2018.

In 2H17, Orchids successfully passed a product qualification for ultra-premium bath tissue with a major new customer. The company qualified its ultra-premium products with a major retailer and started shipments in December 2017.

Although the new orders should provide a significant increase to higher margin converted product sales through our forecast horizon, continuing competitive pressures from branded manufacturers are anticipated to reduce existing business volumes.

Our projections take into account competitive pressures continuing in 2018. For 1H19, we project competitive pressures easing somewhat (as they typically do every few years), but increasing gradually in 2H19 as Orchids' private label competitors sell their newly expanded ultra-premium product capacity.

Operations

2018 - We project revenue of $203 million and net income of $6 million or $0.53 per share. We previously projected revenue of $220 million and net income of $21.1 million or $1.88 per share. Our lowered projections reflect a slower ramp in converted product sales than previously projected.

We project gross margins increasing to 16% compared to 5.4% in 2017 due to converted product sales increasing and the cost savings from a full year of operation from the new paper machine in Barnwell, South Carolina are realized.

We project SG&A expenses increasing $1.2 million to $12.9 million primarily to support sales growth. Operating margins should improve to 9.2% from (2.4%) reflecting gross profit increasing by nearly $24 million to $32.6 million, due to higher sales and gross margin expansion. We anticipate interest expense increasing to $11.8 million from $5 million due primarily to a full year of non-capitalized interest expense on higher average debt levels. The tax rate is estimated at 21%.

For 2018, we project Orchids will generate $18.2 million cash from operations from cash earnings of $21.2 million and a $3 million increase in working capital. The change in working capital will come primarily from increases in receivables and inventories offset in part by increases in payables and accruals. Cash from operations should cover $5 million in capital expenditures and $12.2 million pay down of debt, increasing cash by $1.2 million to $5 million at December 31, 2018.

2019 - We project revenue increasing 14.5% to $232.5 million and net income of $19.9 million or $1.77 per share. Revenue should be driven by new business from a significant customer. This is expected to be fully implemented by the end of 4Q18.

We project gross margins expanding to 21.2% as higher margin ultra-premium converted product sales increase.

We project SG&A expenses increasing $950,000 to $13.8 million primarily to support sales growth. Operating margins should increase to 14.9% from 9.2% reflecting gross profit increasing by nearly $17 million to $49.4 million, as sales and gross margins improve. We anticipate interest expense decreasing to $10.1 million from $11.8 million due primarily to lower average debt levels. The tax rate is estimated at 21%.

For 2018, we project Orchids will generate $32.5 million cash from operations from cash earnings of $34.6 million and a $2.2 million increase in working capital. The change in working capital will come primarily from increases in receivables and inventories offset in part by increases in payables and accruals. Cash from operations should cover $5 million in capital expenditures and $26.9 million pay down of debt, increasing cash by $733,000 to $5.8 million at December 31, 2019.

4Q and Fiscal 2017 Financial Results

4Q17 - Sales increased 15.4% to $43.5 million from $37.7 million in 4Q16. Net income was $8.9 million or $0.85 per share versus net income of $2.6 million or $0.25 per share. Included in 4Q17 net income was a one-time tax benefit of approximately $11 million or $1.05 per share related to recent tax law changes. We projected 4Q17 revenue of $44.5 million and a net loss of $687,000 or $(0.06) per share.

Converted product sales increased 15% to $40.5 million and parent roll sales increased 21.3% to $3 million. The increase in converted product sales reflected higher volumes from the rollout of new private-label business. The increase in parent roll sales was primarily due to higher average selling prices.

Gross profit decreased 55.9% to $2.5 million as gross margins decreased to 5.8% from 15.1%. The decrease in gross margins was primarily due to increased costs associated with Barnwell’s fixed labor, fixed overhead, and start-up costs.

Selling, general and administrative expenses increased 12.8% to $2.8 million due to higher administrative and sales personnel costs, changes in allowances for potential bad debt, increased legal and professional fees, and charitable contributions of excess inventory, net of the favorable impact of a decrease in tax penalties.

The company recognized $232,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. The operating loss was $506,000 compared to operating income of $3 million in the year ago period. Interest expense increased to $3.1 million from $491,000 due to higher debt balances and higher interest rates.

2017 - Sales of $162.5 million were down 1.2% from 2016. Net income was $6.7 million or $0.64 per share versus net income of $12.8 million or $1.24 per share. Included in 2017 net income was a one-time tax benefit of approximately $11 million or $1.06 per share related to recent tax law changes.

Converted product net sales decreased 5.1% to $150.1 million reflecting lower sales volume and a decrease in the average selling price. Parent roll sales nearly doubled to $12.4 million reflecting an increase in sales volume partially offset by a decrease in the average selling price.

Gross profit decreased 71.1% to $8.7 million as gross margins decreased to 5.4% from 18.3%. The decrease in gross margins was primarily due to startup costs associated with Barnwell, higher material costs to make ultra-premium products, additional freight costs, and competitive pressures on pricing and market share.

Selling, general and administrative expenses increased by 14.3% to $11.7 million due primarily to increased legal and professional fees, charitable contributions of excess inventory, increased administrative and sales personnel costs, changes in allowances for bad debt, and increased rent.

The company recognized $931,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. The operating loss was $3.9 million compared to operating income of $18.7 million. Interest expense increased to $5 million from $1.7 million due to higher debt balances and higher interest rates.

Liquidity - As of December 31, 2017, Orchids had cash of $3.8 million, a current ratio of 0.2 versus 0.8 for the paper products industry, and a debt/equity ratio of 1.2 versus 0.5 for the industry. All of the company's long-term debt was classified as current due to the uncertainty regarding Orchids' ability to meet the existing debt covenants with its lender over the next twelve months. Orchids' total debt has more than quadrupled in the past three years to approximately $169 million from approximately $36 million at the end of 2014. The increase in debt was to fund the expansion into South Carolina and capital expenditures.

In 2017, cash from operations of $13.4 million was due to $6.9 million cash earnings and a $6.5 million decrease in working capital. The decrease in working capital was primarily due to a decrease in income taxes receivable offset in part by increases in receivables. Cash from operations and a $28.5 million net increase in debt was more than offset by capital expenditures of $49.2 million and $3.6 million in 1Q17 dividend payments resulting in a $4.9 million decrease in cash to $3.8 million as of December 31, 2017.

In November 2017, Orchids entered into an amended $180 million credit agreement with US Bank National Association. The agreement includes a $25 million revolving credit line due June 2020, a $47.3 million term loan due June 2020, a $108.5 million delayed draw term loan with a two year draw period due June 2020, 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 6% depending on the company's leverage ratio, or a base rate plus a margin of up to 3.75% depending upon the company's leverage ratio.

In December 2015, Orchids entered into an $11.1 million term loan with US Bank. The loan bears interest at a rate of 4.4% and matures on December 29, 2022.

As of December 31, 2017, the company's weighted-average interest rate was 7.3%.

In February 2018, Orchids covenants to maintain specific fixed charge coverage and leverage ratios were waived until June 30, 2018.

In May 2017, Orchids entered into an equity distribution agreement with Sun Trust Robinson where Orchids may sell up to $40 million of common stock at market prices. During 2017, Orchids' sold 359,957 shares of common stock at a weighted average price of $14.71 per share for net proceeds of $5 million after deducting commissions and fees.

The company is seeking to refinance its existing long-term debt obligations. Orchids may also need to seek another amendment to its credit agreement with its existing lenders. If the company is unable to obtain another waiver of its financial covenants and/or a refinancing is not completed, the bank could declare a default.

Risks

Significant level of debt
At December 31, 2017, Orchids had $170.8 million of debt. If the company is unable to pay off or refinance this level of debt, the bank could declare a default. Operating with this amount of leverage and with variable interest rates may require a significant portion of Orchids' cash flow from operations be directed to service debt. This would reduce the funds otherwise available for operations, capital expenditures, and other corporate purposes.

Uncertainty in meeting debt covenants – As of December 31, 2017, Orchids' borrowings under its credit agreement and term loan were classified as current on the balance sheet due to the increased level of uncertainty surrounding the company's ability to meet its existing debt covenants. The company has obtained waivers until June 2018. If the company is unable to obtain another waiver of its financial covenants and/or a refinancing is not completed, the bank could declare a default.

Competition
Tissue paper products are commodity products. If Orchids does not maintain competitive prices, it may lose significant market share. The company's ability to keep its prices at competitive levels depends in large part on its ability to control costs. If Orchids is unable to effectively adjust its cost structure to address increased competitive pressures, its sales and profitability could be adversely affected.

Customer concentration
Three customers (Dollar General, Walmart/Sam's Club, and Family Dollar/Dollar Tree) accounted for approximately 67% of total sales in 2017. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

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.

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 9.8 million shares in the float with an average daily volume of approximately 82,000 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 $)

	2015A	2016A	2017A	2018E	2019E
Cash	4,361	8,750	3,823	5,021	5,754
Accounts receivable	11,834	9,445	12,867	16,075	18,412
Inventories	13,501	18,414	20,563	22,793	24,492
Income taxes receivable	5,628	8,735	499	499	499
Prepaid expenses	1,136	925	957	957	957
Other	1,853	868	684	684	684
Deferred income taxes	1,300	-	-	-	-
Total current assets	39,613	47,137	39,393	46,029	50,798
Property, plant and equipment	173,378	249,184	285,758	276,963	268,617
Restricted cash	12,005	1,276	3	3	3
VAT receivable	1,751	212	242	242	242
Intangible assets	15,730	14,511	13,579	12,647	11,715
Goodwill	7,560	7,560	7,560	7,560	7,560
Deferred debt issuance costs	1,342	-	-	-	-
Total Assets	251,379	319,880	346,535	343,444	338,935
Bank overdrafts	-	-	-	-	-
Accounts payable	11,098	10,869	15,458	17,134	18,412
Accrued liabilities	3,880	2,545	3,202	4,000	4,582
Short-term notes payable	-	-	317	-	-
Current portion of long-term debt	3,882	6,728	168,903	157,000	130,071
Total current liabilities	18,860	20,142	187,880	178,135	153,064
Long-term debt	71,699	133,989	33	33	33
Other	5,098	5,170	5,240	5,240	5,240
Deferred income taxes	21,939	27,334	11,595	11,595	11,595
Total liabilities	117,596	186,635	204,748	195,003	169,932
Total stockholders' equity	133,783	133,245	141,787	148,441	169,002
Total liabilities & stockholders' equity	251,379	319,880	346,535	343,444	338,935

Source: Company filings and Taglich Brothers' estimates

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

	2015A	2016A	2017A	2018E	2019E
Net sales	168,446	164,494	162,484	203,000	232,500
Cost of sales	137,949	134,345	153,758	170,431	183,138
Gross profit	30,497	30,149	8,726	32,569	49,363
Intangibles amortization	1,507	1,219	932	932	932
SG&A expenses	9,540	10,244	11,711	12,880	13,830
Operating income (loss)	19,450	18,686	(3,917)	18,757	34,601
Interest expense	521	1,678	4,980	11,820	10,060
Other (income) expense	(683)	(214)	(70)	(600)	(600)
Income (loss) before taxes	19,612	17,222	(8,827)	7,537	25,141
Income tax expense (benefit)	6,055	4,411	(15,501)	1,583	5,280
Net income (loss)	13,557	12,811	6,674	5,954	19,861
EPS	1.38	1.24	0.64	0.53	1.77
Shares Outstanding	9,844	10,349	10,415	11,200	11,200
Margin Analysis					
Gross margin	18.1%	18.3%	5.4%	16.0%	21.2%
SG&A expenses	5.7%	6.2%	7.2%	6.3%	5.9%
Operating margin	11.5%	11.4%	(2.4%)	9.2%	14.9%
Net margin	8.0%	7.8%	4.1%	2.9%	8.5%
Tax rate	30.9%	25.6%	175.6%	21.0%	21.0%
Year / Year Growth					
Total Revenues	18.0%	(2.3%)	(1.2%)	24.9%	14.5%
Net Income	43.2%	(5.5%)	(47.9%)	NMF	NMF
EPS	24.2%	(10.1%)	(48.2%)	NMF	NMF

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2017, 2018, and 2019
(in thousands $)

	3/17A	6/17A	9/17A	12/17A	2017A	3/18E	6/18E	9/18E	12/18E	2018E	3/19E	6/19E	9/19E	12/19E	2019E
Net sales	35,354	38,443	45,172	43,515	162,484	46,500	49,300	52,200	55,000	203,000	56,250	57,500	58,750	60,000	232,500
Cost of sales	33,385	36,929	42,432	41,012	153,758	42,083	42,645	42,804	42,900	170,431	43,875	44,850	46,413	48,000	183,138
Gross profit	1,969	1,514	2,740	2,503	8,726	4,418	6,656	9,396	12,100	32,569	12,375	12,650	12,338	12,000	49,363
Intangibles amortization	233	233	233	232	932	233	233	233	233	932	233	233	233	233	932
SG&A expenses	2,619	3,289	3,026	2,777	11,711	3,020	3,160	3,290	3,410	12,880	3,430	3,450	3,470	3,480	13,830
Operating income (loss)	(883)	(2,008)	(519)	(506)	(3,917)	1,165	3,263	5,873	8,457	18,757	8,712	8,967	8,635	8,287	34,601
Interest expense	517	560	827	3,076	4,980	3,120	3,010	2,900	2,790	11,820	2,680	2,570	2,460	2,350	10,060
Other (income) expense	(167)	(115)	(42)	254	(70)	(150)	(150)	(150)	(150)	(600)	(150)	(150)	(150)	(150)	(600)
Income (loss) before taxes	(1,233)	(2,453)	(1,304)	(3,836)	(8,827)	(1,806)	403	3,123	5,817	7,537	6,182	6,547	6,325	6,087	25,141
Income tax expense (benefit)	(373)	(406)	(2,009)	(12,712)	(15,501)	(379)	85	656	1,222	1,583	1,298	1,375	1,328	1,278	5,280
Net income (loss)	(860)	(2,047)	705	8,876	6,674	(1,426)	318	2,467	4,595	5,954	4,884	5,172	4,996	4,809	19,861
EPS	(0.08)	(0.20)	0.07	0.85	0.64	(0.13)	0.03	0.22	0.41	0.53	0.44	0.46	0.45	0.43	1.77
Shares Outstanding	10,350	10,367	10,429	10,502	10,415	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200	11,200
Margin Analysis															
Gross margin	5.6%	3.9%	6.1%	5.8%	5.4%	9.5%	13.5%	18.0%	22.0%	16.0%	22.0%	22.0%	21.0%	20.0%	21.2%
SG&A expenses	7.4%	8.6%	6.7%	6.4%	7.2%	6.5%	6.4%	6.3%	6.2%	6.3%	6.1%	6.0%	5.9%	5.8%	5.9%
Operating margin	(2.5%)	(5.2%)	(1.1%)	-1.2%	(2.4%)	2.5%	6.6%	11.3%	15.4%	9.2%	15.5%	15.6%	14.7%	13.8%	14.9%
Net margin	(2.4%)	(5.3%)	1.6%	20.4%	4.1%	-3.1%	0.6%	4.7%	8.4%	2.9%	8.7%	9.0%	8.5%	8.0%	8.5%
Tax rate	30.3%	16.6%	154.1%	32.3%	175.6%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Year / Year Growth															
Total Revenues	(25.9%)	(2.5%)	14.0%	15.4%	(1.2%)	31.5%	28.2%	15.6%	26.4%	24.9%	21.0%	16.6%	12.5%	9.1%	14.5%
Net Income	(115.9%)	(179.7%)	(68.1%)	238.6%	(47.9%)	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF
EPS	(115.9%)	(179.8%)	(68.3%)	233.6%	(48.2%)	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF

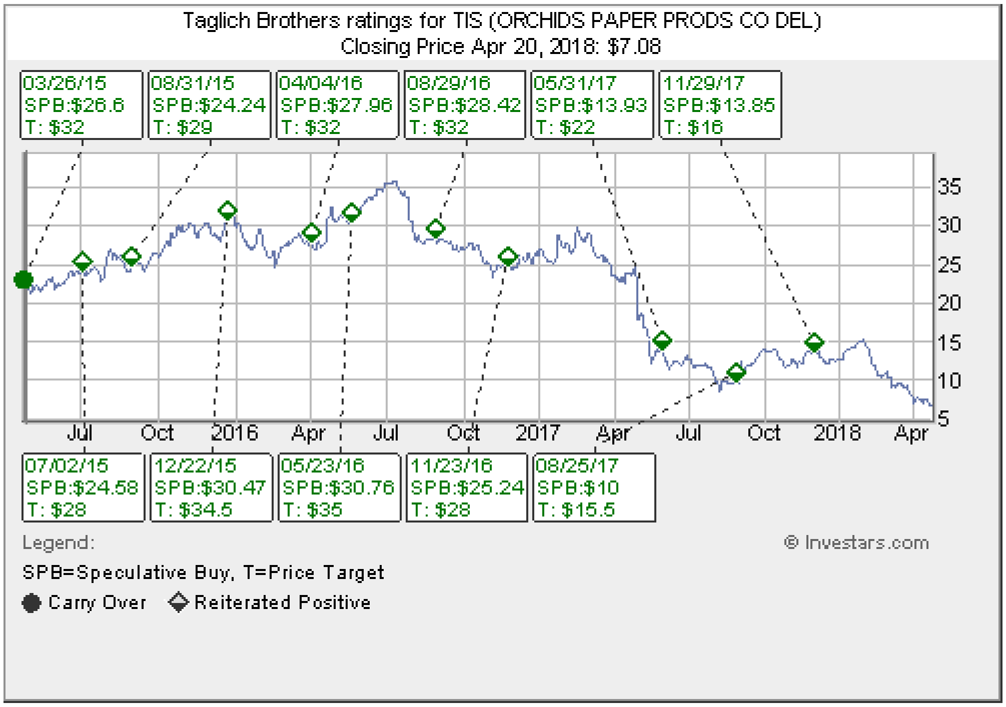
Source: Company filings and Taglich Brothers' estimates

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

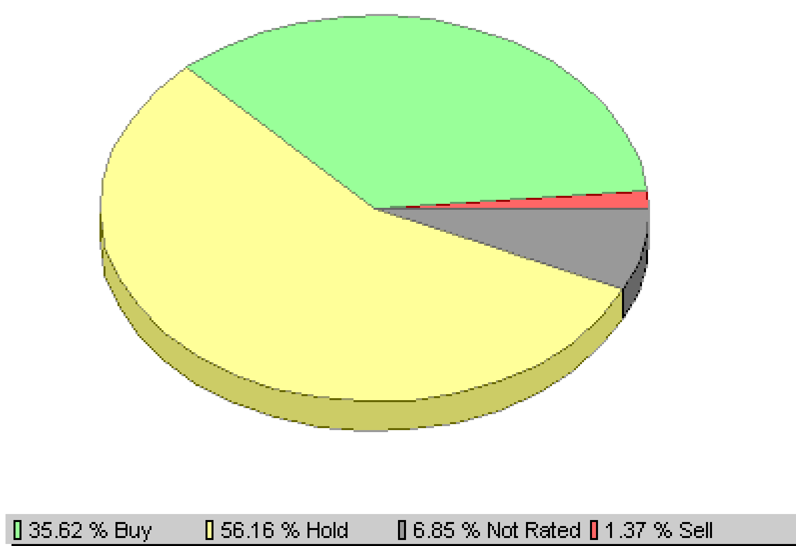
	2015A	2016A	2017A	2018E	2019E
Net income(loss)	13,557	12,811	6,674	5,954	19,861
Depreciation and amortization	11,420	13,229	15,219	14,727	14,278
Provision for doubful accounts	-	(125)	323	-	-
Deferred income taxes	4,235	7,570	(15,739)	-	-
Stock based compensation	1,048	566	410	500	500
(Gain) loss on disposal of property, plant and equipment	-	17	52	-	-
Cash earnings	30,260	34,068	6,939	21,181	34,639
Changes in assets and liabilities					
Accounts receivable	(1,640)	2,514	(3,745)	(3,208)	(2,336)
Inventories	(3,852)	(4,913)	(2,149)	(2,230)	(1,699)
Prepaid expenses	149	211	(32)	-	-
Income taxes receivable	(4,994)	(3,107)	8,236	-	-
Other current assets	(972)	2,237	154	-	-
Accounts payable	(293)	(973)	3,388	1,676	1,277
Acrrued liabilities	133	(2,210)	655	798	581
(Increase) decrease in working capital	(11,469)	(6,241)	6,507	(2,964)	(2,177)
Net Cash Provided by (Used in) Operations	18,791	27,827	13,446	18,218	32,462
Acquisition of Fabrica's US business	-	-	-	-	-
Proceeds from the sale of investment securities	-	-	-	-	-
Proceeds from insurance settlement	-	420	51	-	-
(Increase) decrease in restricted cash	(12,005)	10,729	1,273	-	-
Purchase of investment securities	-	-	-	-	-
Sale of property and equipment	-	34	-	-	-
Purchase of property and equipment	(63,184)	(88,862)	(49,188)	(5,000)	(5,000)
Net Cash Provided by (Used in) Investing	(75,189)	(77,679)	(47,864)	(5,000)	(5,000)
Borrowings on long-term debt	31,109	-	-	-	-
Proceeds under New Market Tax Credit financing	5,098	-	-	-	-
Proceeds from economic incentive	-	1,900	-	-	-
Principal payments on long-term debt	(2,700)	(3,882)	(4,558)	(11,903)	(26,929)
Net borrowings (repayments) on revolving credit line	10,810	70,267	33,360	-	-
Borrowings on short-term notes	-	-	857	-	-
Payments on short-term notes	-	-	(540)	(317)	-
Bank overdrafts	(1,706)	-	-	-	-
Proceeds from the exercise of stock options	210	314	134	200	200
Excess tax benefit of stock options exercised	(6)	171	-	-	-
Deferred debt issuance cost	(1,349)	(129)	(1,086)	-	-
Proceeds from sale of common stock	32,119	-	4,931	-	-
Dividends paid	(13,847)	(14,400)	(3,607)	-	-
Net Cash Provided by (Used in) Financing	59,738	54,241	29,491	(12,020)	(26,729)
Net Change in Cash	3,340	4,389	(4,927)	1,198	733
Cash - Beginning of Period	1,021	4,361	8,750	3,823	5,021
Cash - End of Period	4,361	8,750	3,823	5,021	5,754

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	3	12
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 115,670 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 2,000 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 102,900 shares of TIS common stock. Other employees at Taglich Brothers, Inc. own 30 shares of TIS common stock. 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)
Kimberly-Clark (NYSE: KMB)
Procter & Gamble (NYSE: PG)
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.