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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
May 31, 2017

TIS $13.93 — (NYSE MKT)

	2015A	2016A	2017E	2018E
Revenues (millions)	$168.4	$164.5	$177.9	$207.4
Earnings per share	$1.38	$1.24	$0.78	$2.20

52-Week range	$36.31 – $12.37	Fiscal year ends:	December
Shares outstanding as/of 4/28/17	10.3 million	Revenue per share (TTM)	$14.68
Approximate float	9.3 million	Price/Sales (TTM)	0.9X
Market capitalization	$143 million	Price/Sales (FY2018)E	0.7X
Tangible book value/share	$10.39	Price/Earnings (TTM)	22.1X
Price/tangible book value	1.3X	Price/Earnings (FY2018)E	6.3X

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. Establishing 12-month price target of $22.00 based on our 2018 EPS forecast.

While shares of TIS reached a new 52-week low on May 17, 2017 stemming from disappointing 1Q17 results and suspension of its dividend, we anticipate growth should resume in 2H17.

The company's growth potential is significant as production ramps to support new orders received in 1H17.

We project total converted tonnage (from Oklahoma, Fabrica and South Carolina) should increase to 85,600 tons in 2017, up from 81,430 tons in 2016. 2017 orders are expected to increase sales volumes of converted products by roughly 35% annually, driving higher margin converted tonnage to 99,000 tons in 2018.

Orchids reported (10Q released 5/8/17) 1Q17 revenue of $35.4 million and a loss of $(0.08) per share compared to revenue of $47.7 million and EPS of $0.52 in 1Q16. The significant decrease stems from near-term competitive pressures.

We project 2017 revenue of $177.9 million and EPS of $0.78. For 2018, we project revenue of $207.4 million and EPS of $2.20. 2018 revenue growth will be driven by a full year of shipments from new orders received in 2017.

While debt and interest payments are projected to peak in 2017, we project Orchids will generate $37 million cash from operations in 2018 (primarily from cash earnings), helping to reduce Orchids' total debt outstanding by approximately $21 to $131 million in 2018.

Please view our disclosures on pages 13 - 15.

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Recommendation and Valuation

Reiterating Speculative Buy rating. Establishing 12-month price target of $22.00 based on our 2018 forecast.

Shares of Orchids Paper trade at a significant forward discount to its peers (see chart below) due arguably to the company's 1Q17 loss (its first quarterly loss in ten years), a high debt/equity ratio (1.2X versus 0.5 for the industry), and suspension of its $0.35 per share quarterly dividend.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2018 P/E
Procter & Gamble	PG	87.4	223,535	22.6	21.3
Kimberly-Clark	KMB	128.97	45,775	21.2	19.2
Cascades	CADNF	11.93	1,146	16.1	10.7
Clearwater Paper	CLW	47.25	776	15.9	10.7
Peer Average				**19.0**	**15.5**
Company					
Orchids Paper Products	**TIS**	**13.93**	**143**	**22.1**	**6.3**
Source: Taglich Brothers estimates, Thomson Reuters					

Orchids currently trades at a multiple of 6X our 2018 EPS projection while its peers trade at a 2018 multiple of 16X earnings. As revenue and earnings start to ramp and debt levels begin to diminish starting in 2H17, TIS's multiple should expand towards its peers. We applied a multiple of 11X to our 2018 EPS projection of $2.20, discounted for execution risk, to obtain a year-ahead value of approximately $22.00 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, Barnwell, South Carolina facility, and Fabrica's Mexicali, Mexico facility (which supplies TIS with converted products to the West Coast), all 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.

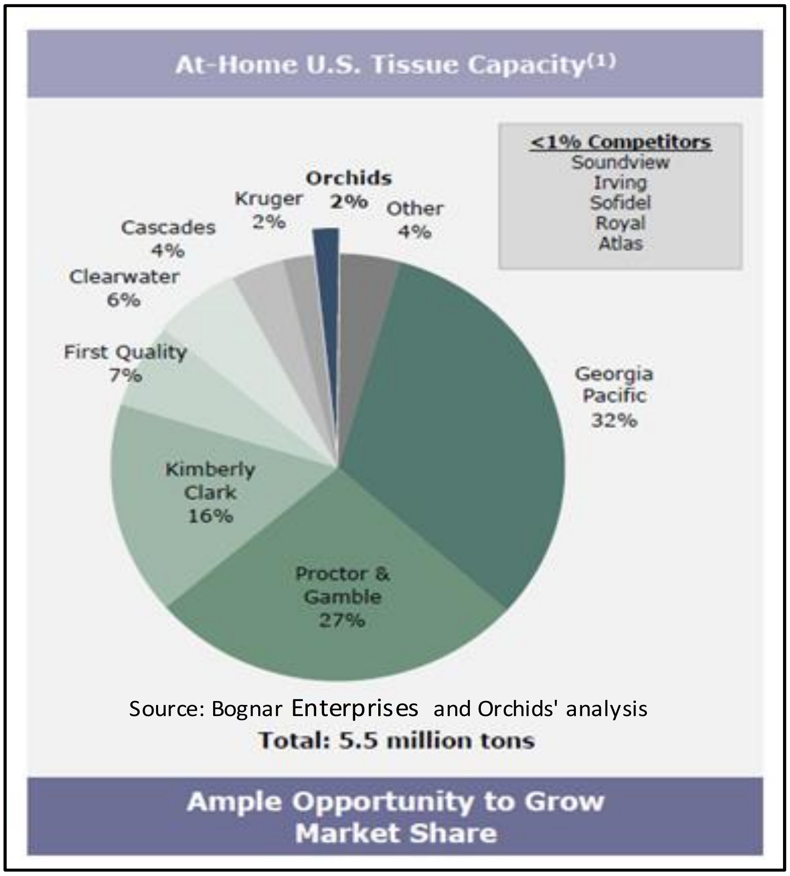
In May 2017, Orchids announced it launched a new line of branded products under the names of Tackle®, Clean Scents®, and Orchids Trends® for paper towels, and Orchids Supreme® for bath tissue. Indications are that sales of this new line to "1st to market" retailers have been strong and outselling established brands.

Market and Competition

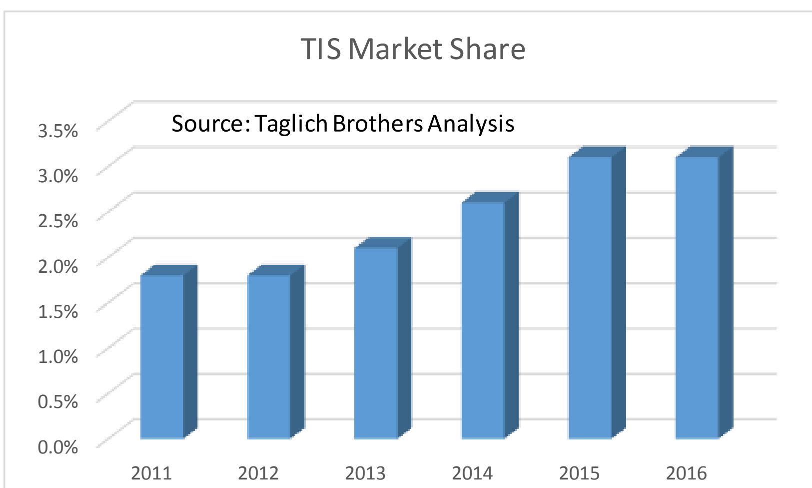
In February 2017, IBISWorld estimated the 2017 US sanitary paper product market at $12.4 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $5.2 billion. The overall industry is projected to grow at an average annual growth rate of 0.6% to $12.9 billion by 2023.

Dollar and variety stores, Orchids' primary target markets, realized sales of $65.7 billion in 2016. In December 2016, IBISWorld projected dollar and variety stores' average revenue growth to grow 0.4% annually to $67.4 billion by 2023 as increased competition from mass merchandisers and large superstores, such as Walmart, Target and Costco, slow growth.

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 seven years, competitors (Clearwater Paper, Georgia-Pacific, Cascades, and Pacific Paper) have moved into Orchids' market areas, arguably drawn by attractive margins. The increased competition 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 reversed this downward trend as growing sales of higher margin converted products increased Orchids' gross margins to 22.4% in 2012, and 24% in 2013. However, 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 to 18.1% 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 4Q15. Gross margins remained in the 18% range in 2016 but would have fallen to 17.7% in 2016 when a one-time insurance gain of $1.1 million is excluded. 2016 gross margins realized additional depreciation expense from the Barnwell expansion.

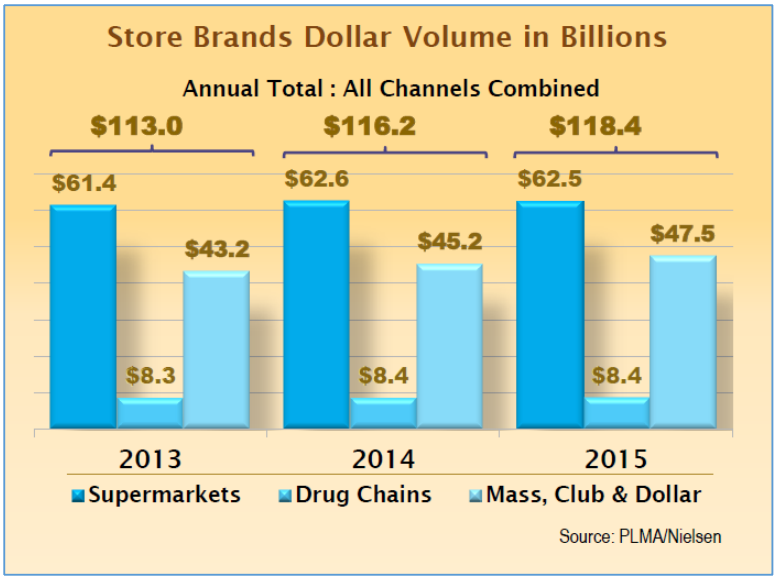


Although Orchids' competition has increased throughout the years, the company has managed to increase its market share by offering higher grade products, geographic expansion and away from home products through the acquisition of Fabrica's US operations in 2014. This has enabled Orchids to steadily increase its market share from 1.8% in 2011 to 3.1% in 2015. However, competitive pressures have resulted in Orchids' market share flattening in 2016 (see chart at right).



Private Label Market

In the Private Label Manufacturers Association (PLMA)'s 2016 Private Label Yearbook, sales of private label products were shown to have grown from $113 billion in 2013 to $118.4 billion in 2015 (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 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.

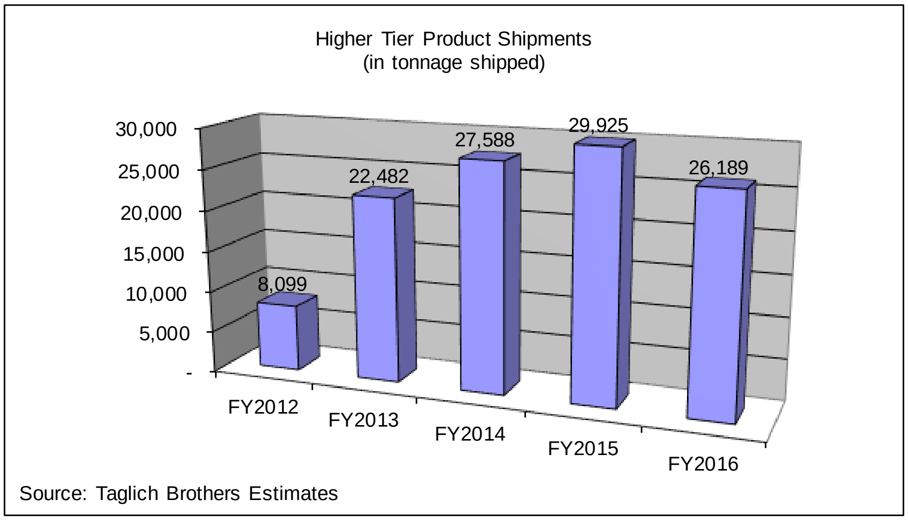


Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In 2Q14, Orchids acquired Fabrica's US business and access to 19,800 metric tons of capacity each year. 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 in excess of 30,000 tons per year. The first converting line was operational in 1Q16 and the second converting line was operational in 3Q16. The paper machine is expected to be operational by the end of 2Q17.

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.

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). However, increased competitive pressures took a toll on Orchids' higher tier shipments in 2016.



Projections

Basis of Forecast

We project a 5% increase in converted tonnage shipped in 2017 and a 16% increase in 2018 due primarily to new orders received in 2017 which are expected to increase sales volumes of converted products by roughly 35% annually starting in 2H17.

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

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.

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue ($,000)
2016A			
Converted	81,430	$ 1,942	$ 158,102
Parent Roll	7,048	$ 907	$ 6,392
Total	88,478	$ 1,859	$ 164,494
2017E	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	85,600	$ 1,971	$ 168,718
Parent Roll	10,000	$ 921	$ 9,210
Total	95,600	$ 1,861	$ 177,928
2018E	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	99,000	$ 2,001	$ 198,099
Parent Roll	10,000	$ 934	$ 9,340
Total	109,000	$ 1,903	$ 207,439

Source: Company filings and Taglich Brothers estimates

Our 2017 converted product projection takes into account current competitive pressures reducing existing business volumes by 9%. New orders are projected to add approximately 13,000 tons for total converted tonnage of 85,600 in 2017. For 2018, we project 99,000 tons of converted products shipped as competitive pressures ease (as they typically do every few years) and a full year of new order shipments.

With a new paper machine expected to be producing product in June 2017, and ramping steadily over the next year, we project 2017 and 2018 parent roll shipments of 10,000 tons.

We project 2017 selling prices of $1,971/ton for converted products and $921/ton for parent rolls, and for 2018, selling prices of $2,001/ton for converted products and $934/ton for parent rolls. Our paper price projections are consistent with the 1.5% average increase in paper selling prices over the two year period projected by IBISWorld. Paper price gains are supported by the fact that falling demand is being outpaced by contracting supply which should result in higher prices.

Orchids currently ships to East Coast customers from its Oklahoma facility. As production in its South Carolina plant ramps, overall freight costs should ease. However, as the new paper machine is not expected to be operational until mid-2017, Orchids has been shipping excess parent rolls from Oklahoma to South Carolina, thereby foregoing profits that would have been received on parent roll sales which has constrained gross margins (see table at right).

	2014A	2015A	2016A	2017E	2018E
Conv. Tons	67,870	82,972	81,430	85,600	99,000
Total Tons	72,792	90,408	88,478	95,600	109,000
Conv. Ton %	93.2%	91.8%	92.0%	89.5%	90.8%
Gross Margin	18.7%	18.1%	18.3%	15.3%	24.0%

Source: Company filings and Taglich Brothers estimates

1H17 gross margins are projected to be lower than 2H17 as the company's new paper machine is not expected to start producing until June 2017. Even though we project gross margin improvement starting in 2H17, the single digit gross margins in 1H17 should result in full year gross margins of 15.3%, lower than the 18% gross margins the company reported over the past three years.

We anticipate gross margins should expand to the 24% level in 2018 (a level not seen since 2013) due primarily to higher margin converted product volumes stemming from a full year of production from its new, more efficient paper machine in Barnwell, South Carolina. Orchids' margins were adversely affected over the past three years reflecting low overhead coverage due to the shutdown of two of its older paper machines and the transition to a new paper machine in Oklahoma, the need to purchase (versus manufacturing) parent rolls in the open market, the shutdown of a converting line for approximately eight weeks, and low overhead coverage associated with the construction of its Barnwell facility.

Operations

2017 - We project revenue of $177.9 million and net income of $8.3 million or $0.78 per share. We project gross margins decreasing to 15.3% in 2017 due primarily to underutilization of the Barnwell facility in 1H17. SG&A expenses of $11 million reflect higher compensation. Operating margins will narrow to 8.5% from 11.4% due primarily to a $3 million decrease in gross profit reflecting gross margin compression and higher operating expenses, partly offset by higher revenue. We project interest expense of $3.7 million, up from $1.7 million due to higher debt levels to support projects needed to complete the Barnwell, South Carolina facility and the capitalization of interest ending in 2H17. The tax rate is estimated at 30.3%.

For 2017, we project Orchids will generate $18 million cash from operations on cash earnings of $27.8 million and a $9.9 million increase in working capital. Significant increases in inventories and income taxes receivable will drive the change in working capital. Cash from operations will not cover our projected $36 million in capital expenditures (primarily for South Carolina facility) requiring a $5.7 million net increase in debt and $5 million proceeds from the issuance of common stock. We project a $7.2 million decrease in cash to $1.5 million at December 31, 2017.

2018 - We project revenue of $207.4 million and net income of $23.5 million or $2.20 per share. Revenue will be driven primarily by a full year of shipments from new orders received in 2017, restrained by competitive pressures from branded product manufacturers. We project gross margins increasing to 24% in 2018 as converted product sales increase 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 $800,000 to $11.8 million in 2018 due primarily to higher compensation levels. Operating margins are projected to increase to 17.9% from 8.5% reflecting gross profit increasing 83.3% to $49.8 million as gross margins expand to 24% from our projection of 15.3% in 2017. Interest expense is projected to decrease to $3.6 million from $3.7 million due primarily to lower debt levels, partly offset by a full year of non-capitalized interest expense. The tax rate is estimated at 30.3%.

For 2018, we project Orchids will generate $37 million cash from operations primarily from cash earnings. Cash from operations should cover our projected $12 million in capital expenditures and $15 million pay down of debt, increasing cash by $10 million to $11.6 million at December 31, 2018.

1Q17 and FY 2016 Financial Results

1Q17 - Sales of $35.4 million were down 26% from the comparable period in 2016. The net loss was $860,000 or $(0.08) per share versus net income of $5.4 million or $0.52 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased 27% to $32.9 million while parent roll (bulk tissue paper) sales remained flat at $2.5 million. The decrease in converted product sales was primarily due to decreased tonnage shipped and a lower average selling price per ton stemming from increased competitive pressure from branded product manufacturers promoting their products through price reductions. The lower average selling price per ton is indicative of product mix (sales to customers of lower tier products made up a greater portion of total sales).

Gross margins decreased to 5.6% from 23.8% primarily due to increased costs/unit associated with the startup and underutilization of the Barnwell facility. Selling, general and administrative (SG&A) expenses remained relatively flat at $2.6 million. The company recognized $233,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. The operating loss was $883,000 compared to operating income of $8.3 million.

FY 2016 - Sales of $164.5 million were down 2% from 2015. Net income was $12.8 million or $1.24 per share versus net income of $13.6 million or $1.38 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased 2% to $158.1 million while parent roll (bulk tissue paper) sales decreased 14% to $6.4 million. The decrease in converted product sales was primarily due to a 2% decrease in tonnage shipped. The decrease in parent roll sales was primarily due to the shipment of parent rolls from the Oklahoma plant to support the startup and inventory build of the new plant in South Carolina.

Gross margins increased to 18.3% from 18.1% primarily due to lower raw material (fiber) costs, the devaluation of the peso, and the favorable impact of $1.1 million of business interruption proceeds received as a result of an incident that occurred in the Oklahoma converting facility in 4Q15. Excluding the $1.1 million one-time favorable impact, gross profit would have been $29.1 million for a 17.7% gross margin, and net income would have been $12.1 million or $1.17 per share.

Selling, general and administrative (SG&A) expenses increased to $10.2 million from $9.5 million due to increased compensation, recruiting, and professional fees. The company recognized $1.2 million of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income decreased to $18.7 million or 11.4% of sales from $19.5 million or 11.5% of sales.

Liquidity - As of March 31, 2017, Orchids had cash of $5.8 million, a current ratio of 1.2X versus 0.8X for the paper products industry, and a debt/equity ratio of 1.2X versus 0.5X for the industry. Orchids' total debt has more than quadrupled in a little over two years to over $152 million at the end of 1Q17 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 $3.6 million in 1Q17 was primarily due to $7.4 million cash earnings offset in part by a $3.8 million increase in working capital. The increase in working capital was primarily due to increases in inventory and income taxes receivable. Cash from operations and an $11.6 million net increase in debt was offset by capital expenditures of $18 million resulting in a $3 million decrease in cash to $5.8 million as of March 31, 2017.

In April 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, a $115 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. In January 2017, the maximum borrowing capacity under the delayed term loan was set at $108.5 million. Advances under the facility bear interest at a variable rate of LIBOR plus a margin of 1.25% to 4% depending on the company's leverage ratio, or a base rate plus a margin of up to 1.75% 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 March 31, 2017, the company's weighted-average interest rate was 3.51%.

The credit agreement contains covenants that require Orchids to maintain specific fixed charge coverage and leverage ratios which were temporarily waived for the first and second quarter of 2017.

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. The company intends to use the proceeds for general corporate purposes, which may include the repayment of debt, strategic investments and acquisitions, capital expenditures, or for other working capital requirements.

Risks

Customer concentration

Two customers (Dollar General and Family Dollar) accounted for approximately 36% of total sales in 2016. 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.

South Carolina construction project

Orchids' South Carolina construction project began in 2015 with the first converting line operational at the end of 1Q16, the second operational in 3Q16, and the new paper machine expected to be operational in June 2017. Total cost is estimated at $150 million to $155 million of which $147 million has been expended as of March 31, 2017. 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.

Potential dilution

Existing investors may experience substantial dilution from the common stock offering announced in May 2017. Assuming the full $40 million is raised through this offering at recent market prices, approximately 2.7 million additional shares of common stock will be outstanding to dilute earnings.

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 9.3 million shares in the float with an average daily volume of approximately 190,000 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 $)

	2014A	2015A	2016A	1Q17A	2017E	2018E
Cash	1,021	4,361	8,750	5,777	1,530	11,552
Accounts receivable	10,195	11,834	9,445	11,837	10,215	11,909
Inventories	9,650	13,501	18,414	18,262	20,662	21,605
Short term investments	-	-	-	-	-	-
Income taxes receivable	634	5,628	8,735	11,840	11,840	11,840
Prepaid expenses	1,285	1,136	925	659	659	659
Other	899	1,853	868	911	911	911
Deferred income taxes	614	1,300	-	-	-	-
Total current assets	24,298	39,613	47,137	49,286	45,816	58,475
Property, plant and equipment	119,720	173,378	249,184	277,077	277,693	276,682
Restricted cash	-	12,005	1,276	1,300	1,300	1,300
VAT receivable	1,734	1,751	212	223	223	223
Intangible assets	17,237	15,730	14,511	14,278	13,611	12,711
Goodwill	7,560	7,560	7,560	7,560	7,560	7,560
Deferred debt issuance costs	190	1,342	-	-	-	-
Total Assets	170,739	251,379	319,880	349,724	346,203	356,951
Bank overdrafts	1,706	-	-	-	-	-
Accounts payable	11,391	11,098	10,869	25,554	12,196	12,752
Accrued liabilities	3,747	3,880	2,545	2,306	2,752	3,209
Dividends payable	-	-	-	3,607	-	-
Current portion of long-term debt	2,700	3,882	6,728	8,511	8,511	8,511
Total current liabilities	19,544	18,860	20,142	39,978	23,459	24,472
Long-term debt	33,662	71,699	133,989	143,754	137,893	122,893
Other	-	5,098	5,170	5,188	5,188	5,188
Deferred income taxes	17,020	21,939	27,334	31,902	31,902	31,902
Total liabilities	70,226	117,596	186,635	220,822	198,442	184,455
Total stockholders' equity	100,513	133,783	133,245	128,902	147,761	172,496
Total liabilities & stockholders' equity	170,739	251,379	319,880	349,724	346,203	356,951

Source: Company filings and Taglich Brothers' estimates

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

	2014A	2015A	2016A	2017E	2018E
Net sales	142,724	168,446	164,494	177,904	207,400
Cost of sales	115,985	137,949	134,345	150,743	157,624
Gross profit	26,739	30,497	30,149	27,162	49,776
Intangibles amortization	753	1,507	1,219	932	932
SG&A expenses	11,675	9,540	10,244	11,019	11,800
Operating income (loss)	14,311	19,450	18,686	15,211	37,044
Interest expense	271	521	1,678	3,667	3,550
Other (income) expense	181	(683)	(214)	(317)	(200)
Income (loss) before taxes	13,859	19,612	17,222	11,861	33,694
Income tax expense (benefit)	4,394	6,055	4,411	3,594	10,209
Net income (loss)	9,465	13,557	12,811	8,266	23,485
EPS	1.11	1.38	1.24	0.78	2.20
Shares Outstanding	8,539	9,844	10,349	10,598	10,680
Margin Analysis					
Gross margin	18.7%	18.1%	18.3%	15.3%	24.0%
SG&A expenses	8.2%	5.7%	6.2%	6.2%	5.7%
Operating margin	10.0%	11.5%	11.4%	8.5%	17.9%
Net margin	6.6%	8.0%	7.8%	4.6%	11.3%
Tax rate	31.7%	30.9%	25.6%	30.3%	30.3%
Year / Year Growth					
Total Revenues	22.6%	18.0%	(2.3%)	8.2%	16.6%
Net Income	(28.9%)	43.2%	(5.5%)	(35.5%)	184.1%
EPS	(33.6%)	24.2%	(10.1%)	(37.0%)	181.9%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2016, 2017, and 2018
(in thousands $)

	3/16A	6/16A	9/16A	12/16A	2016A	3/17A	6/17E	9/17E	12/17E	2017E	3/18E	6/18E	9/18E	12/18E	2018E
Net sales	47,743	39,414	39,628	37,709	164,494	35,354	37,500	52,050	53,000	177,904	50,500	51,400	52,300	53,200	207,400
Cost of sales	36,362	32,541	33,413	32,029	134,345	33,385	35,438	41,640	40,280	150,743	38,380	39,064	39,748	40,432	157,624
Gross profit	11,381	6,873	6,215	5,680	30,149	1,969	2,063	10,410	12,720	27,162	12,120	12,336	12,552	12,768	49,776
Intangibles amortization	377	376	233	233	1,219	233	233	233	233	932	233	233	233	233	932
SG&A expenses	2,722	2,504	2,557	2,461	10,244	2,619	2,400	3,000	3,000	11,019	2,875	2,925	2,975	3,025	11,800
Operating income (loss)	8,282	3,993	3,425	2,986	18,686	(883)	(571)	7,177	9,487	15,211	9,012	9,178	9,344	9,510	37,044
Interest expense	263	285	639	491	1,678	517	800	1,400	950	3,667	925	900	875	850	3,550
Other (income) expense	(201)	(164)	(162)	313	(214)	(167)	(50)	(50)	(50)	(317)	(50)	(50)	(50)	(50)	(200)
Income (loss) before taxes	8,220	3,872	2,948	2,182	17,222	(1,233)	(1,321)	5,827	8,587	11,861	8,137	8,328	8,519	8,710	33,694
Income tax expense (benefit)	2,811	1,304	735	(439)	4,411	(373)	(400)	1,766	2,602	3,594	2,466	2,523	2,581	2,639	10,209
Net income (loss)	5,409	2,568	2,213	2,621	12,811	(860)	(920)	4,061	5,985	8,266	5,671	5,805	5,938	6,071	23,485
EPS	0.52	0.25	0.21	0.25	1.24	(0.08)	(0.09)	0.38	0.56	0.78	0.53	0.54	0.56	0.57	2.20
Shares Outstanding	10,343	10,375	10,368	10,344	10,349	10,350	10,680	10,680	10,680	10,598	10,680	10,680	10,680	10,680	10,680
Margin Analysis															
Gross margin	23.8%	17.4%	15.7%	15.1%	18.3%	5.6%	5.5%	20.0%	24.0%	15.3%	24.0%	24.0%	24.0%	24.0%	24.0%
SG&A expenses	5.7%	6.4%	6.5%	6.5%	6.2%	7.4%	6.4%	5.8%	5.7%	6.2%	5.7%	5.7%	5.7%	5.7%	5.7%
Operating margin	17.3%	10.1%	8.6%	7.9%	11.4%	(2.5%)	(1.5%)	13.8%	17.9%	8.5%	17.8%	17.9%	17.9%	17.9%	17.9%
Net margin	11.3%	6.5%	5.6%	7.0%	7.8%	(2.4%)	(2.5%)	7.8%	11.3%	4.6%	11.2%	11.3%	11.4%	11.4%	11.3%
Tax rate	34.2%	33.7%	24.9%	(20.1%)	25.6%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%	30.3%
Year / Year Growth															
Total Revenues	27.6%	(6.8%)	(15.4%)	(10.0%)	(2.3%)	(25.9%)	(4.9%)	31.3%	40.6%	8.2%	42.8%	37.1%	0.5%	0.4%	16.6%
Net Income	337.6%	(33.8%)	(53.3%)	(29.2%)	(5.5%)	(115.9%)	(135.8%)	83.5%	128.4%	(35.5%)	(759.5%)	(730.7%)	46.2%	1.4%	184.1%
EPS	273.4%	(37.1%)	(53.1%)	(29.1%)	(10.1%)	(115.9%)	(134.8%)	78.2%	121.2%	(37.0%)	(739.1%)	(730.7%)	46.2%	1.4%	181.9%

Source: Company filings and Taglich Brothers' estimates

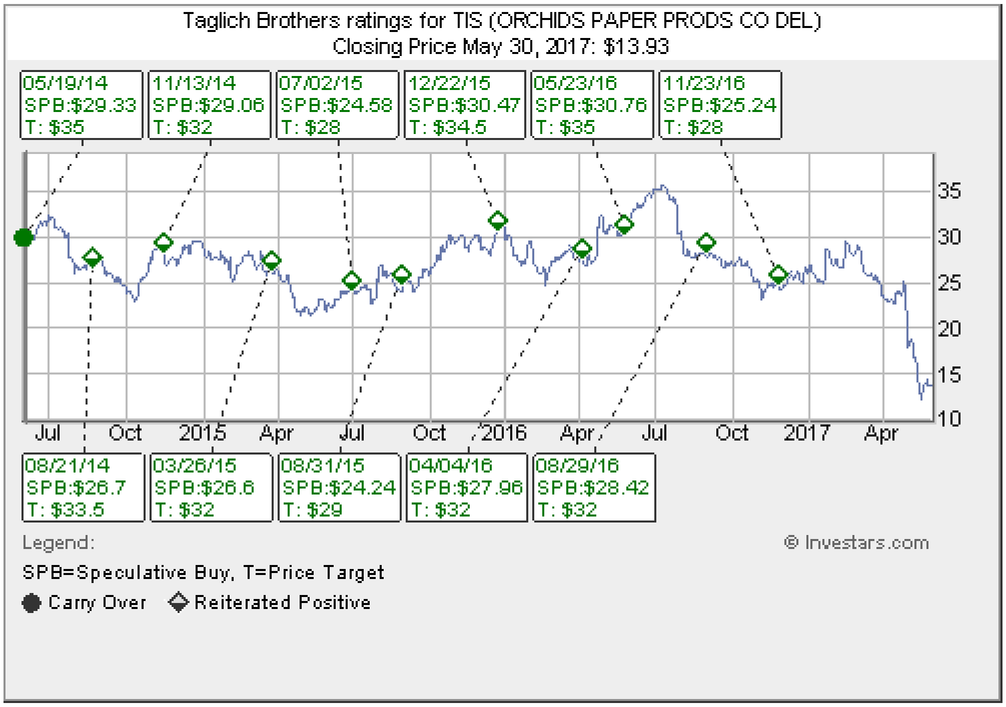
Orchids Paper Products Company

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

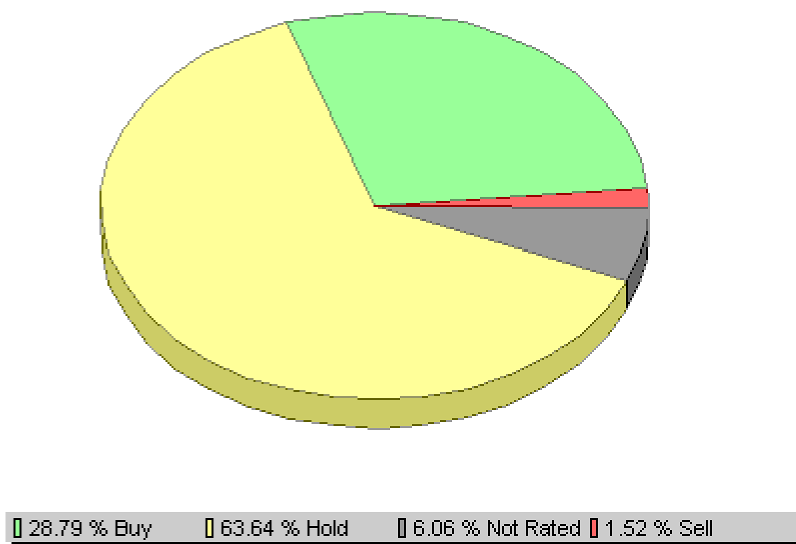
	2014A	2015A	2016A	3m17A	2017E	2018E
Net income(loss)	9,465	13,557	12,811	(860)	8,266	23,485
Depreciation and amortization	9,749	11,420	13,229	3,550	13,961	13,911
Provision for doubful accounts	20	-	(125)	20	20	-
Deferred income taxes	(2,491)	4,235	7,570	4,568	4,568	-
Stock based compensation	1,879	1,048	566	98	1,000	1,000
(Gain) loss on disposal of property, plant and equipment	8	-	17	-	-	-
Cash earnings	18,630	30,260	34,068	7,376	27,815	38,396
Changes in assets and liabilities						
Accounts receivable	(2,556)	(1,640)	2,514	(2,412)	(770)	(1,694)
Inventories	1,272	(3,852)	(4,913)	152	(2,248)	(943)
Prepaid expenses	(422)	149	211	266	266	-
Income taxes receivable	(634)	(4,994)	(3,107)	(3,105)	(3,105)	-
Other current assets	(3,560)	(972)	2,237	(54)	(5,517)	209
Accounts payable	7,706	(293)	(973)	1,629	1,327	557
Acrrued liabilities	(284)	133	(2,210)	(239)	207	456
(Increase) decrease in working capital	1,522	(11,469)	(6,241)	(3,763)	(9,839)	(1,415)
Net Cash Provided by (Used in) Operations	20,152	18,791	27,827	3,613	17,976	36,981
Acquisition of Fabrica's US business	(16,700)	-	-	-	-	-
Proceeds from the sale of investment securities	5,037	-	-	-	-	-
Proceeds from insurance settlement	-	-	420	-	-	-
(Increase) decrease in restricted cash	-	(12,005)	10,729	(24)	(24)	-
Purchase of investment securities	(2)	-	-	-	-	-
Sale of property and equipment	-	-	34	-	-	-
Purchase of property and equipment	(25,769)	(63,184)	(88,862)	(18,027)	(36,000)	(12,000)
Net Cash Provided by (Used in) Investing	(37,434)	(75,189)	(77,679)	(18,051)	(36,024)	(12,000)
Borrowings on long-term debt	30,000	31,109	-	-	-	-
Proceeds under New Market Tax Credit financing	-	5,098	-	-	-	-
Proceeds from economic incentive	-	-	1,900	-	-	-
Principal payments on long-term debt	(16,429)	(2,700)	(3,882)	(1,139)	(7,000)	(15,000)
Net borrowings (repayments) on revolving credit line	7,712	10,810	70,267	12,787	12,787	-
Bank overdrafts	1,706	(1,706)	-	-	-	-
Proceeds from the exercise of stock options	79	210	314	61	250	250
Excess tax benefit of stock options exercised	20	(6)	171	-	-	-
Deferred debt issuance cost	(209)	(1,349)	(129)	(209)	(209)	(209)
Proceeds from sale of common stock	-	32,119	-	(35)	5,000	-
Dividends paid	(11,781)	(13,847)	(14,400)	-	-	-
Net Cash Provided by (Used in) Financing	11,098	59,738	54,241	11,465	10,828	(14,959)
Net Change in Cash	(6,184)	3,340	4,389	(2,973)	(7,220)	10,022
Cash - Beginning of Period	7,205	1,021	4,361	8,750	8,750	1,530
Cash - End of Period	1,021	4,361	8,750	5,777	1,530	11,552

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	13
Hold	2	50
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 107,401 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 80,410 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 72,900 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)
Family Dollar (NYSE: FDO)
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.