TAGLICH BROTHERS

MEMBER: FINRA, SIPC | WWW.TAGLICHBROTHERS.COM

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
August 25, 2017

TIS $10.00 — (NYSE MKT)

	2015A	2016A	2017E	2018E
Revenues (millions)	$168.4	$164.5	$171.3	$202.2
Earnings per share	$1.38	$1.24	$0.28	$1.89

52-Week range	$30.38 – $8.31	Fiscal year ends:	December
Shares outstanding as/of 7/28/17	10.4 million	Revenue per share (TTM)	$14.59
Approximate float	9.4 million	Price/Sales (TTM)	0.7X
Market capitalization	$104 million	Price/Sales (FY2018)E	0.6X
Tangible book value/share	$10.42	Price/Earnings (TTM)	NMF
Price/tangible book value	1.0X	Price/Earnings (FY2018)E	5.3X

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. Lowering 12-month price target to $15.50 from $22.00 per share due primarily to our reduced 2018 forecast.

While shares of TIS reached a new 52-week low on August 7, 2017 stemming from disappointing 2Q17 results, we anticipate revenue and earnings growth should resume in 2H17 as production ramps to support new orders.

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 8/9/17) 2Q17 revenue of $38.4 million and a loss of $(0.20) per share compared to revenue of $39.4 million and EPS of $0.25 in 2Q16. We projected 2Q17 revenue of $37.5 million and a loss of $(0.09) per share.

We project 2017 revenue of $171.3 million and EPS of $0.28, down from our prior forecast of $177.9 million and $0.78 per share. Our reduced forecast reflects recent results, a 4% reduction in our converted product selling price estimate to $1884/ton, and lower gross margins.

We project 2018 revenue of $202.2 million and EPS of $1.89 per share, down from our previous projections of $207.4 million and $2.20 per share. Our reduced forecast reflects a 2% reduction in our converted product selling price estimate to $1,955/ton, and higher operating expenses.

While debt and interest payments are projected to peak in 2017, we project Orchids will generate $34.8 million cash from operations in 2018 (primarily from cash earnings), helping to reduce Orchids' total debt outstanding by approximately $41 million to $124.4 million at December 31, 2018 from a peak of $165.4 million at June 30, 2017.

Please view our disclosures on pages 14 - 16.

Recommendation and Valuation

Reiterating Speculative Buy rating. Lowering 12-month price target to $15.50 from $22.00 per share due primarily to our reduced 2018 forecast.

Shares of Orchids Paper trade at a significant forward discount to its peers (see chart below) due arguably to the company's 1H17 earnings loss (its first six-month loss in ten years), a high debt/equity ratio (1.3X versus 0.5 for the industry), suspension of its $0.35 per share quarterly dividend, and the reclassification of long-term bank debt to current.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2018 P/E
Procter & Gamble	PG	92.27	235,290	23.5	20.7
Kimberly-Clark	KMB	120.99	42,746	20.1	18.3
Cascades	CADNF	11.6	94,719	17.8	10.8
Clearwater Paper	CLW	45.05	740	21.7	11.2
Peer Average				**20.8**	**15.3**
Company					
Orchids Paper Products	**TIS**	**10**	**104**	**52.6**	**5.3**
Source: Taglich Brothers estimates, Thomson Reuters					

Orchids currently trades at a multiple of 5.3X our 2018 EPS projection while its peers trade at a multiple of 15.3X 2018 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 9X (down from 11X due to the increased level of uncertainty surrounding the company's ability to meet its existing debt covenants over the next year) to our 2018 EPS projection of $1.89, discounted for execution risk, to obtain a year-ahead value of approximately $15.50 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.

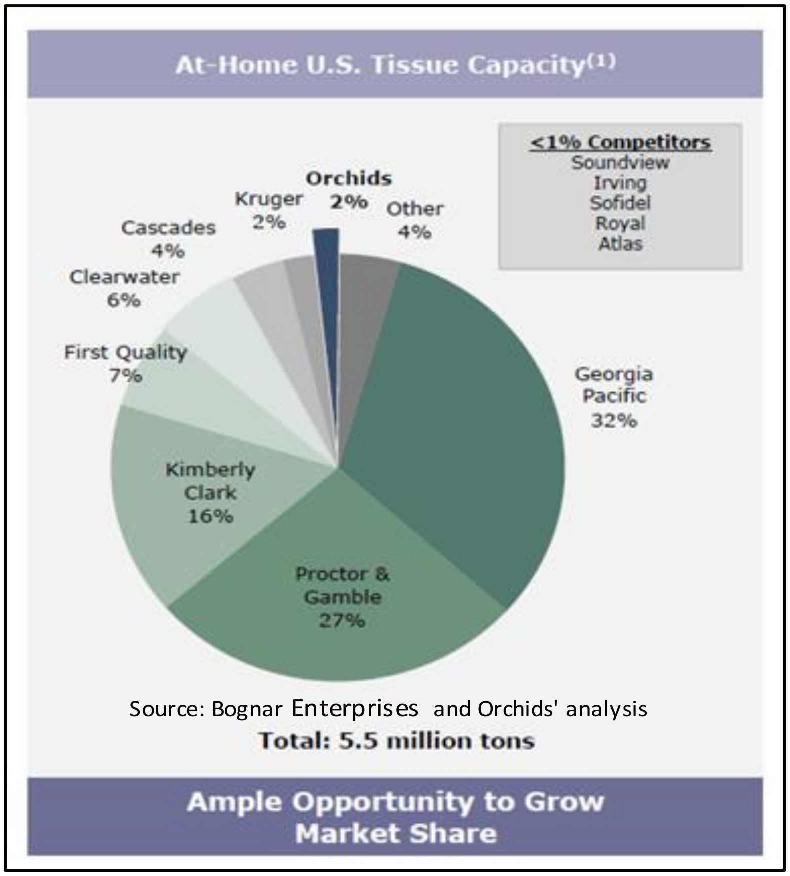
In May 2017, Orchids announced it launched a new line of branded products under the names of Tackle®, Clean Scents®, and Orchids Trends® for paper towels, and Orchids Supreme® for bath tissue. Indications are that sales of this new line to "1st to market" retailers have been strong and outselling established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

Market and Competition

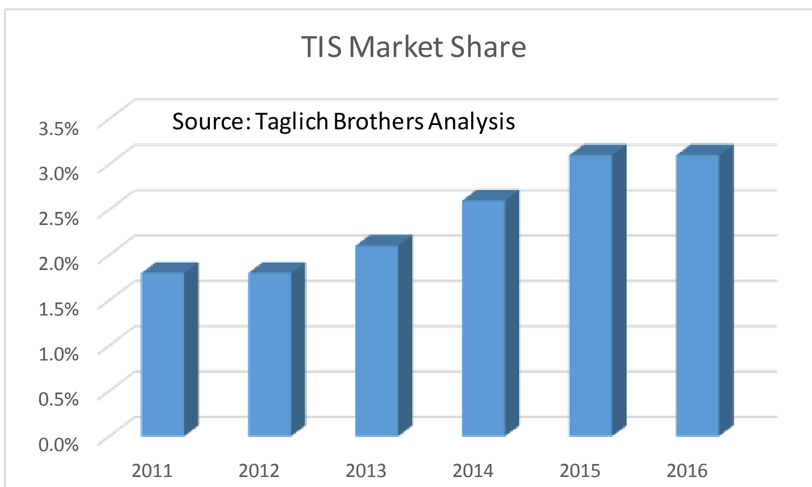
In February 2017, IBISWorld estimated the 2017 US sanitary paper product market at $12.4 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $5.2 billion. The overall industry is projected to grow at an average annual growth rate of 0.6% to $12.9 billion by 2023.

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.



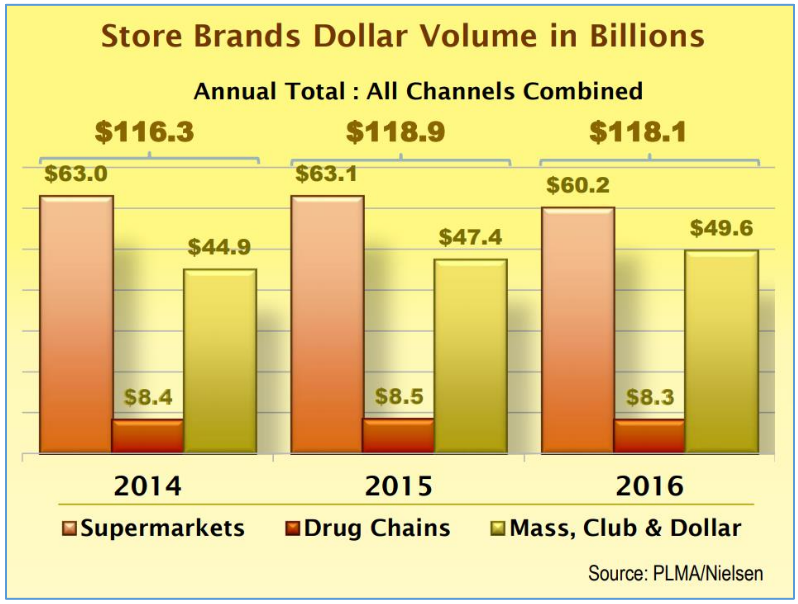
Orchids' margins were also adversely affected over the past three years which reflected low overhead coverage due to the shutdown of two of its older paper machines and the transition to a new paper machine in Oklahoma. The company also needed to purchase (versus manufacturing) parent rolls in the open market, had to shut down a converting line for approximately eight weeks, and was adversely affected by low overhead coverage associated with the construction of its Barnwell facility which we believe will be the low point in gross margins in 1H17.



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 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 (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 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.

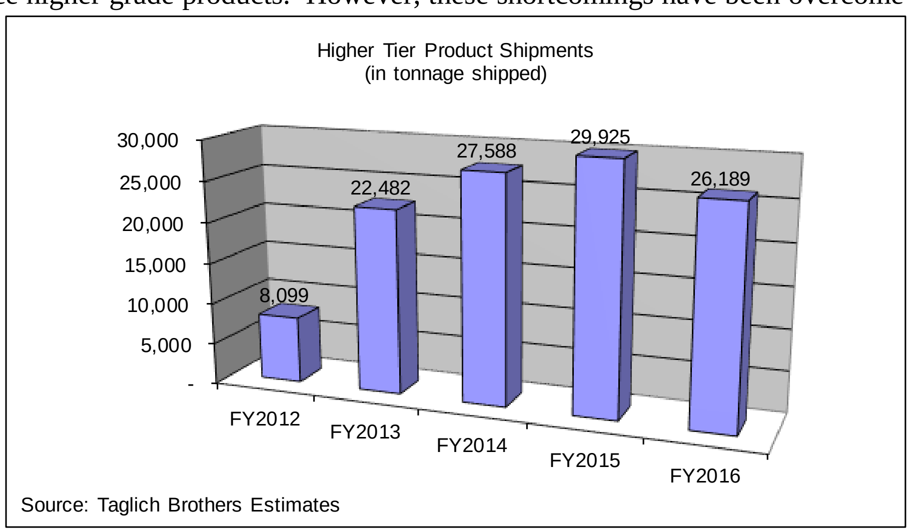


Strategy

Orchids aims to increase sales of its converted products, 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 became operational in 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

<u>Basis of Forecast</u>

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 at least 30% annually starting in 2H17.

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

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 expanded capacity is not expected to have an impact until 2019 and 2020, which should allow Orchids' to gain market share in 2018.

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			
Converted	85,600	$ 1,884	$ 161,270
Parent Roll	12,000	$ 836	$ 10,032
Total	97,600	$ 1,755	$ 171,302
2018E			
Converted	99,000	$ 1,955	$ 193,545
Parent Roll	10,000	$ 867	$ 8,670
Total	109,000	$ 1,855	$ 202,215

Source: Company filings and Taglich Brothers estimates

Orchids' said it successfully passed a product qualification for ultra-premium bath tissue with a potential major new customer. The company is also in the process of finalizing the qualification of an ultra-premium kitchen towel. In addition, Orchids is currently qualifying ultra-premium bath tissue and kitchen towel business for private label bids that the company expects to ship in 2018.

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 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.

In June 2017, a new paper machine commenced operations and its production capacity should increase over the next year. We project 2017 and 2018 parent roll shipments of 12,000 tons and 10,000 tons, respectively compared to a little over 7,000 tons in 2016.

We project 2017 selling prices of $1,884/ton for converted products and $836/ton for parent rolls, and for 2018, selling prices of $1,955/ton for converted products and $867/ton for parent rolls. Our paper price projections take into consideration the lower prices associated with 2017 new bids and the 3.6% average increase in paper selling prices over the two year period projected by IBISWorld. Paper price gains should be supported as falling demand is being outpaced by contracting supply.

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 was not operational until June 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	97,600	109,000
Conv. Ton %	93.2%	91.8%	92.0%	87.7%	90.8%
Gross Margin	18.7%	18.1%	18.3%	12.4%	24.0%

Source: Company filings and Taglich Brothers estimates

We project 2H17 gross margins to increase versus 1H17 reflecting the steady production ramp of the company's new paper machine which started producing in 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 12.4%, lower than the 18% gross margins the company reported over the past three years and a reduction from our prior forecast of 15.3%.

We anticipate gross margins should expand to 24% 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 which reflected 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 company also needed to purchase (versus manufacturing) parent rolls in the open market, had to shut down a converting line for approximately eight weeks, and was adversely affected by low overhead coverage associated with the construction of its Barnwell facility which we believe will be the low point in gross margins in 1H17.

Operations

2017 - We project revenue of $171.3 million and net income of $3 million or $0.28 per share. We previously projected revenue of $177.9 million and net income of $8.3 million or $0.78 per share. We lowered our forecast to reflect recent results, a 4% reduction in our converted product selling price estimate to $1884/ton, and lower gross margins. We project gross margins decreasing to 12.4% due primarily to underutilization of the Barnwell facility in 1H17. SG&A expenses should increase 16.5% to $11.9 million, reflecting higher compensation. Operating margins should narrow to 4.9% from 11.4% due primarily to an $8.8 million decrease in gross profit to $21.3 million reflecting gross margin compression and higher operating expenses. We project interest expense of $4.7 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 3Q17. The tax rate is estimated at 29.2%.

For 2017, we project Orchids will generate $21.9 million cash from operations on cash earnings of $27 million and a $5.1 million increase in working capital. Significant increases in income taxes receivable will drive the change in working capital. Cash from operations will not cover our projected $40 million in capital expenditures (primarily for South Carolina facility) requiring a $13.6 million net increase in debt and $1.7 million proceeds from the issuance of common stock. We project a $7.1 million decrease in cash to $1.7 million at December 31, 2017.

2018 - We project revenue of $202.2 million and net income of $21.2 million or $1.89 per share. We previously projected revenue of $207.4 million and net income of $23.5 million or $2.20 per share. Our reduced forecast primarily reflects a 2% reduction in our converted product selling price estimate to $1,955/ton and higher than anticipated operating expenses. 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 $567,000 to $12.5 million due primarily to higher compensation levels. Operating margins should increase to 17.4% from 4.9% reflecting gross profit more than doubling to $48.5 million, as gross margins expand to 24% from our projection of 12.4% in 2017. Interest expense is projected to decrease to $4.5 million from $4.7 million due primarily to lower average debt levels, partly offset by a full year of non-capitalized interest expense. The tax rate is estimated at 32%.

For 2018, we project Orchids will generate $34.8 million cash from operations primarily from cash earnings. Cash from operations should nearly cover our projected $5 million in capital expenditures and $29 million pay down of debt, decreasing cash by $131,000 to $1.5 million at December 31, 2018.

2Q and 1H16 Financial Results

2Q17 - Sales of $38.4 million were down 2% from the comparable period in 2016. The net loss was $2 million or $(0.20) per share versus net income of $2.6 million or $0.25 per share. We projected 2Q17 revenue of $37.5 million and a net loss of $920,000 or $(0.09) per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased 12% to $34.7 million while parent roll (bulk tissue paper) sales increased to $3.7 million from $75,000. The decrease in converted product sales was primarily due to a 6% decrease in tonnage shipped and a 6% decrease in the average selling price per ton reflecting lower prices from new bids that became effective in 2017 and product mix. The increase in parent roll sales was a result of lower converted product shipments allowing for the excess paper produced to be sold as parent rolls.

Gross margins decreased to 3.9% from 17.4% primarily due to the decrease in average selling prices and increased costs/unit associated with the startup and underutilization of the Barnwell facility. Selling, general and administrative (SG&A) expenses increased by $785,000 to $3.3 million due to increased employee costs related to the timing of medical claims, marketing efforts, and legal and professional fees. The company recognized $233,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. The operating loss was $2 million compared to operating income of $4 million.

1H17 - Sales of $73.8 million were down 15% from 1H16. The net loss was $2.9 million or $(0.28) per share versus net income of $8 million or $0.77 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased 20% to $67.6 million while parent roll (bulk tissue paper) sales increased to $6.2 million from $2.6 million. The decrease in converted product sales was primarily due to a 15% decrease in tonnage shipped and a 6% decrease in the average selling price per ton reflecting heavy promotional activity by brand competitors. The increase in parent roll sales resulted from lower converted product shipments allowing for the excess paper produced to be sold as parent rolls.

Gross margins decreased to 4.7% from 20.9% primarily due to the decrease in average selling prices and increased costs/unit associated with the startup and

	6m17A	6m16A	% change
	(in thousands $)		
Net sales	73,797	87,157	(15.3%)
Cost of sales	70,314	68,903	2.0%
Gross profit	3,483	18,254	(80.9%)
Intangibles amortization	466	753	(38.1%)
SG&A expenses	5,908	5,226	13.1%
Operating income (loss)	(2,891)	12,275	(123.6%)
Interest expense	1,077	548	96.5%
Other (income) expense	(282)	(365)	NMF
Income (loss) before taxes	(3,686)	12,092	(130.5%)
Income tax expense (benefit)	(779)	4,115	(118.9%)
Net income (loss)	(2,907)	7,977	(136.4%)
Diluted EPS	(0.28)	0.77	(136.5%)
Diluted Shares Outstanding	10,334	10,343	
Margin Analysis			
Gross margin	4.7%	20.9%	
SG&A expenses	8.0%	6.0%	
Operating margin	(3.9%)	14.1%	
Net margin	(3.9%)	9.2%	

Source: Company filings

underutilization of the Barnwell facility. Selling, general and administrative (SG&A) expenses increased to $5.9 million from $5.2 million due to increased employee costs, marketing efforts, and professional fees. The company recognized $466,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. The operating loss was $2.9 million compared to operating income of $12.3 million.

Liquidity - As of June 30, 2017, Orchids had cash of $1.3 million, a current ratio of 0.2X versus 0.8X for the paper products industry, and a debt/equity ratio of 1.3X versus 0.5X 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 a little over two years to over $165 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.

Cash from operations of $5.1 million in 1QH7 was primarily due to $14 million cash earnings offset in part by an $8.9 million increase in working capital. The increase in working capital was primarily due to an increase in non-current income taxes receivable. Cash from operations and a $25.6 million net increase in debt was more than offset by capital expenditures of $35.4 million and $3.6 million in dividend payments resulting in a $7.4 million decrease in cash to $1.3 million as of June 30, 2017.

In June 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. 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.

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 quarters of 2017.

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 June 30, 2017, the company's weighted-average interest rate was 5.07%.

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 2Q17, Orchids' sold 118,700 shares of common stock at a weighted average price of $16.90 per share for net proceeds of $1.8 million after deducting commissions and fees.

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 $160 million of which $155 million has been expended as of June 30, 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.

Uncertainty in meeting debt covenants – As of June 30, 2017, Orchids' borrowings under its credit agreement and term loan that are due in 2022 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 over the next year.

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 9.4 million shares in the float with an average daily volume of approximately 152,000 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	2Q17A	2017E	2018E
Cash	1,021	4,361	8,750	1,327	1,670	1,539
Accounts receivable	10,195	11,834	9,445	14,504	9,836	11,610
Inventories	9,650	13,501	18,414	20,936	20,559	21,061
Short term investments	-	-	-	-	-	-
Income taxes receivable	634	5,628	8,735	3,385	3,385	3,385
Prepaid expenses	1,285	1,136	925	319	319	319
Other	899	1,853	868	1,086	1,086	1,086
Deferred income taxes	614	1,300	-	-	-	-
Total current assets	24,298	39,613	47,137	41,557	36,854	39,000
Property, plant and equipment	119,720	173,378	249,184	285,063	275,787	268,195
Restricted cash	-	12,005	1,276	1,206	1,206	1,206
VAT receivable	1,734	1,751	212	10,598	10,598	10,598
Intangible assets	17,237	15,730	14,511	14,045	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	360,029	345,616	339,270
Bank overdrafts	1,706	-	-	165	165	-
Accounts payable	11,391	11,098	10,869	20,480	12,135	12,432
Accrued liabilities	3,747	3,880	2,545	3,118	2,650	3,128
Dividends payable	-	-	-	-	-	-
Current portion of long-term debt	2,700	3,882	6,728	165,369	153,369	124,369
Total current liabilities	19,544	18,860	20,142	189,132	168,320	139,929
Long-term debt	33,662	71,699	133,989	33	33	33
Other	-	5,098	5,170	5,204	5,204	5,204
Deferred income taxes	17,020	21,939	27,334	36,804	36,804	36,804
Total liabilities	70,226	117,596	186,635	231,173	210,361	181,970
Total stockholders' equity	100,513	133,783	133,245	128,856	135,256	157,300
Total liabilities & stockholders' equity	170,739	251,379	319,880	360,029	345,616	339,270

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	171,297	202,200
Cost of sales	115,985	137,949	134,345	149,997	153,660
Gross profit	26,739	30,497	30,149	21,301	48,540
Intangibles amortization	753	1,507	1,219	932	932
SG&A expenses	11,675	9,540	10,244	11,933	12,500
Operating income (loss)	14,311	19,450	18,686	8,436	35,108
Interest expense	271	521	1,678	4,717	4,540
Other (income) expense	181	(683)	(214)	(582)	(600)
Income (loss) before taxes	13,859	19,612	17,222	4,301	31,168
Income tax expense (benefit)	4,394	6,055	4,411	1,258	9,974
Net income (loss)	9,465	13,557	12,811	3,043	21,194
EPS	1.11	1.38	1.24	0.28	1.89
Shares Outstanding	8,539	9,844	10,349	10,779	11,200
Margin Analysis					
Gross margin	18.7%	18.1%	18.3%	12.4%	24.0%
SG&A expenses	8.2%	5.7%	6.2%	7.0%	6.2%
Operating margin	10.0%	11.5%	11.4%	4.9%	17.4%
Net margin	6.6%	8.0%	7.8%	1.8%	10.5%
Tax rate	31.7%	30.9%	25.6%	29.2%	32.0%
Year / Year Growth					
Total Revenues	22.6%	18.0%	(2.3%)	4.1%	18.0%
Net Income	(28.9%)	43.2%	(5.5%)	(76.2%)	596.5%
EPS	(33.6%)	24.2%	(10.1%)	(77.2%)	570.3%

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	6/17A	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	38,443	48,500	49,000	171,297	49,500	50,200	50,900	51,600	202,200
Cost of sales	36,362	32,541	33,413	32,029	134,345	33,385	36,929	41,953	37,730	149,997	37,868	38,278	38,557	38,958	153,660
Gross profit	11,381	6,873	6,215	5,680	30,149	1,969	1,514	6,548	11,270	21,301	11,633	11,923	12,343	12,642	48,540
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	3,289	3,000	3,025	11,933	3,050	3,100	3,150	3,200	12,500
Operating income (loss)	8,282	3,993	3,425	2,986	18,686	(883)	(2,008)	3,315	8,012	8,436	8,350	8,590	8,960	9,209	35,108
Interest expense	263	285	639	491	1,678	517	560	1,780	1,860	4,717	1,570	1,280	990	700	4,540
Other (income) expense	(201)	(164)	(162)	313	(214)	(167)	(115)	(150)	(150)	(582)	(150)	(150)	(150)	(150)	(600)
Income (loss) before taxes	8,220	3,872	2,948	2,182	17,222	(1,233)	(2,453)	1,685	6,302	4,301	6,930	7,460	8,120	8,659	31,168
Income tax expense (benefit)	2,811	1,304	735	(439)	4,411	(373)	(406)	430	1,607	1,258	2,217	2,387	2,598	2,771	9,974
Net income (loss)	5,409	2,568	2,213	2,621	12,811	(860)	(2,047)	1,255	4,695	3,043	4,712	5,072	5,522	5,888	21,194
EPS	0.52	0.25	0.21	0.25	1.24	(0.08)	(0.20)	0.11	0.42	0.28	0.42	0.45	0.49	0.53	1.89
Shares Outstanding	10,343	10,375	10,368	10,344	10,349	10,350	10,367	11,200	11,200	10,779	11,200	11,200	11,200	11,200	11,200
Margin Analysis															
Gross margin	23.8%	17.4%	15.7%	15.1%	18.3%	5.6%	3.9%	13.5%	23.0%	12.4%	23.5%	23.8%	24.3%	24.5%	24.0%
SG&A expenses	5.7%	6.4%	6.5%	6.5%	6.2%	7.4%	8.6%	6.2%	6.2%	7.0%	6.2%	6.2%	6.2%	6.2%	6.2%
Operating margin	17.3%	10.1%	8.6%	7.9%	11.4%	(2.5%)	(5.2%)	6.8%	16.4%	4.9%	16.9%	17.1%	17.6%	17.8%	17.4%
Net margin	11.3%	6.5%	5.6%	7.0%	7.8%	(2.4%)	(5.3%)	2.6%	9.6%	1.8%	9.5%	10.1%	10.8%	11.4%	10.5%
Tax rate	34.2%	33.7%	24.9%	(20.1%)	25.6%	30.3%	16.6%	25.5%	25.5%	29.2%	32.0%	32.0%	32.0%	32.0%	32.0%
Year / Year Growth															
Total Revenues	27.6%	(6.8%)	(15.4%)	(10.0%)	(2.3%)	(25.9%)	(2.5%)	22.4%	29.9%	4.1%	40.0%	30.6%	4.9%	5.3%	18.0%
Net Income	337.6%	(33.8%)	(53.3%)	(29.2%)	(5.5%)	(115.9%)	(179.7%)	(43.3%)	79.1%	(76.2%)	(647.9%)	(347.8%)	340.0%	25.4%	596.5%
EPS	273.4%	(37.1%)	(53.1%)	(29.1%)	(10.1%)	(115.9%)	(179.8%)	(47.5%)	65.4%	(77.2%)	(606.3%)	(329.4%)	340.0%	25.4%	570.3%

Source: Company filings and Taglich Brothers' estimates

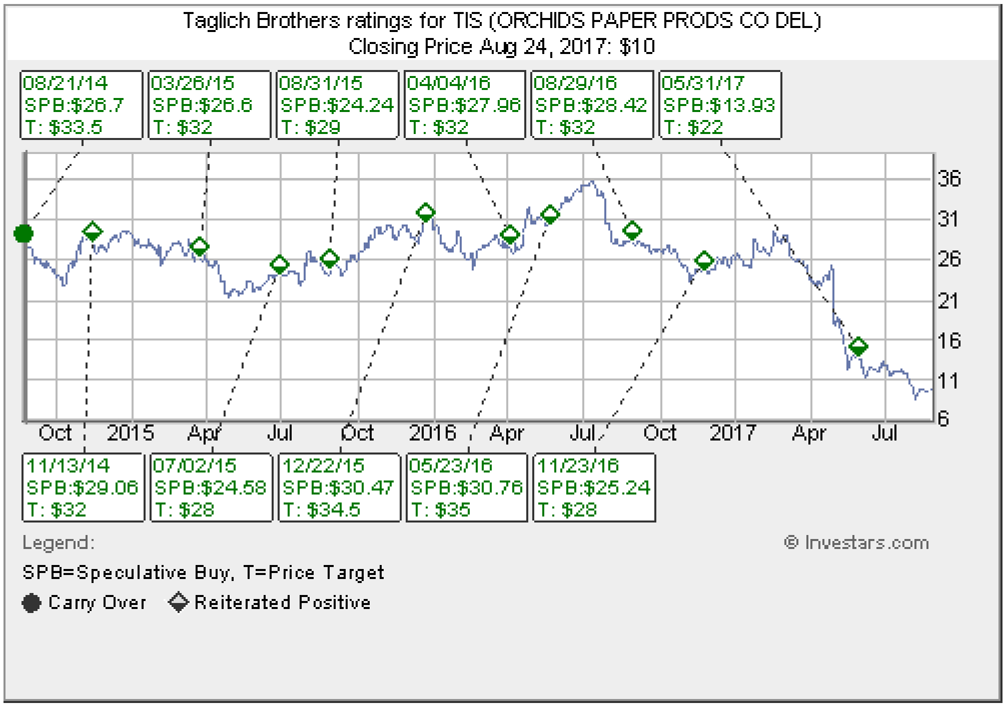
Orchids Paper Products Company

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

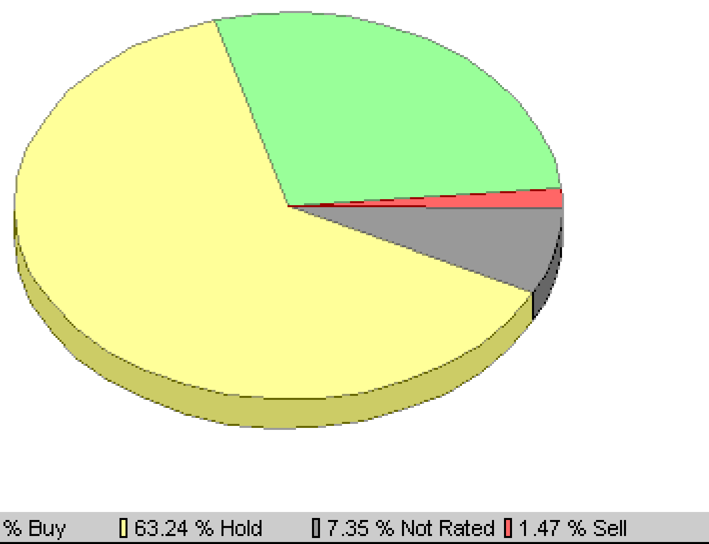
	2014A	2015A	2016A	6m17A	2017E	2018E
Net income(loss)	9,465	13,557	12,811	(2,907)	3,043	21,194
Depreciation and amortization	9,749	11,420	13,229	7,127	13,867	13,492
Provision for doubful accounts	20	-	(125)	-	-	-
Deferred income taxes	(2,491)	4,235	7,570	9,470	9,470	-
Stock based compensation	1,879	1,048	566	266	600	600
(Gain) loss on disposal of property, plant and equipment	8	-	17	-	-	-
Cash earnings	18,630	30,260	34,068	13,956	26,980	35,286
Changes in assets and liabilities						
Accounts receivable	(2,556)	(1,640)	2,514	(5,059)	(391)	(1,774)
Inventories	1,272	(3,852)	(4,913)	(2,522)	(2,145)	(502)
Prepaid expenses	(422)	149	211	606	606	-
Income taxes receivable	(634)	(4,994)	(3,107)	5,350	5,350	-
Non-current income taxes receivable	-	-	-	(10,370)	(10,370)	
Other current assets	(3,560)	(972)	2,237	(234)	449	1,018
Accounts payable	7,706	(293)	(973)	2,763	1,266	296
Acrrued liabilities	(284)	133	(2,210)	573	105	478
(Increase) decrease in working capital	1,522	(11,469)	(6,241)	(8,893)	(5,129)	(484)
Net Cash Provided by (Used in) Operations	20,152	18,791	27,827	5,063	21,851	34,802
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	70	70	-
Purchase of investment securities	(2)	-	-	-	-	-
Sale of property and equipment	-	-	34	-	-	-
Purchase of property and equipment	(25,769)	(63,184)	(88,862)	(35,439)	(40,000)	(5,000)
Net Cash Provided by (Used in) Investing	(37,434)	(75,189)	(77,679)	(35,369)	(39,930)	(5,000)
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)	(2,276)	(2,276)	-
Net borrowings (repayments) on revolving credit line	7,712	10,810	70,267	27,925	15,925	(29,000)
Bank overdrafts	1,706	(1,706)	-	165	165	-
Proceeds from the exercise of stock options	79	210	314	134	250	250
Excess tax benefit of stock options exercised	20	(6)	171	-	-	-
Deferred debt issuance cost	(209)	(1,349)	(129)	(1,183)	(1,183)	(1,183)
Proceeds from sale of common stock	-	32,119	-	1,725	1,725	-
Dividends paid	(11,781)	(13,847)	(14,400)	(3,607)	(3,607)	-
Net Cash Provided by (Used in) Financing	11,098	59,738	54,241	22,883	10,999	(29,933)
Net Change in Cash	(6,184)	3,340	4,389	(7,423)	(7,080)	(131)
Cash - Beginning of Period	7,205	1,021	4,361	8,750	8,750	1,670
Cash - End of Period	1,021	4,361	8,750	1,327	1,670	1,539

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	10
Hold	1	33
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 138,006 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 85,610 shares of TIS common 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 72,900 shares of TIS common stock. Other employees at Taglich Brothers, Inc. own 14,030 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

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from Compliance.

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.