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 31, 2015

TIS $24.24 — (NYSE MKT)

	2013A	2014A	2015E	2016E
Revenues (millions)	$116.4	$142.7	$173.0	$192.4
Earnings per share	$1.67	$1.11	$1.35	$1.75

52-Week range	$30.00 – $21.42	Fiscal year ends:	December
Shares outstanding as/of 7/31/15	10.3 million	Revenue per share (TTM)	$18.22
Approximate float	8.7 million	Price/Sales (TTM)	1.3X
Market capitalization	$250 million	Price/Sales (FY2016)E	1.3X
Tangible book value/share	$10.51	Price/Earnings (TTM)	19.4X
Price/tangible book value	2.3X	Price/Earnings (FY2016)E	13.9X
Annual dividend	$1.40	Dividend Yield	5.8%

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 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. Raising 12-month price target to $29.00 (from $28.00) due to increased earnings expectations.

The company's five-year growth potential is substantial due to geographic expansion: the 2014 acquisition of Fabrica's business in California, Nevada, Arizona, New Mexico and Utah, upgrading machines at its Oklahoma facility in 1H15, and a new integrated facility in South Carolina.

With a full year of shipments from Fabrica and recent new business (shipments start in August 2015) bringing Orchids' Oklahoma converted run rate to 67,000 tons annually, we project a 24% increase in converted products being shipped in 2015 to approximately 84,300 tons.

In 2016, total converted tonnage (from Oklahoma, Fabrica and South Carolina) is projected to increase 10% to 92,800 tons, higher than our previous projection of 87,816 tons due primarily to a full year of shipments from new business in Oklahoma which started in August 2015 and shipments from South Carolina.

We project 2015 revenue of $173 million and EPS of $1.35. The change in our projections (previously $173.5 million revenue and $1.30 EPS) primarily reflects 2Q15 results. We project 2016 revenue of $192.4 million and EPS of $1.75. The change in our projections (previously $185.4 million revenue and EPS of $1.66) stems primarily from increased shipments of converted products.

Orchids reported (10Q released 8/5/15) 2Q15 revenue of $42.3 million and EPS of $0.39. We projected 2Q15 revenue of $42.5 million and EPS of $0.33. In the year earlier quarter, Orchids generated revenue of $29.2 million and EPS of $0.07.

Please view our disclosures on pages 14 - 16.

Recommendation and Valuation

Reiterating **Speculative Buy** rating and raising **12-month price target to $29.00** (from $28.00) due to increased earnings expectations.

Orchids' current TTM EPS multiple of 19X is down from the previous two year average of 22X due arguably to much higher debt (and interest expense). But based on EPS growth, the market should value the stock at 18X estimated 2016 EPS. Applying a multiple of 18X to our 2016 EPS estimate of $1.75, discounted to a twelve-month value of $1.62, gives us a price target of approximately $29.00 per share.

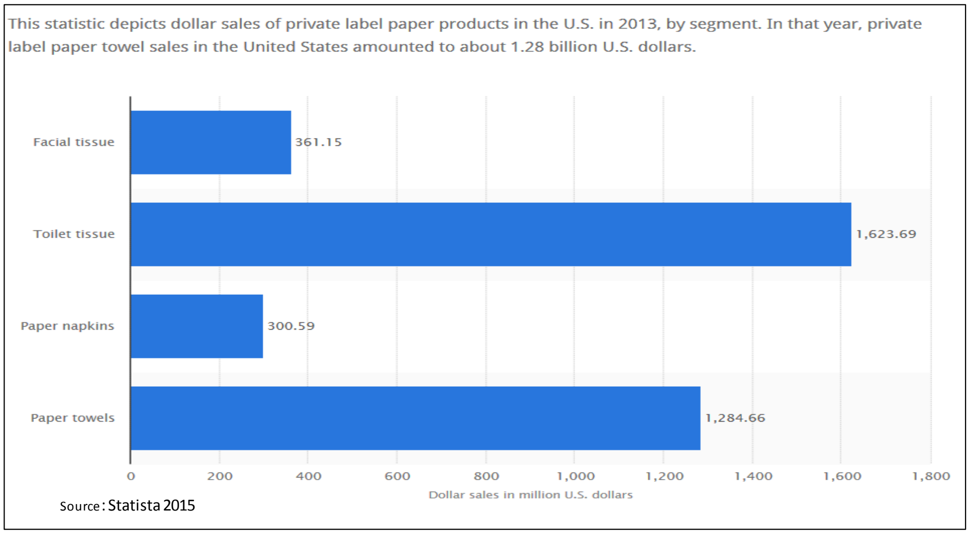
Business

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 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 northeast Oklahoma facility, a cost-effective shipping area.

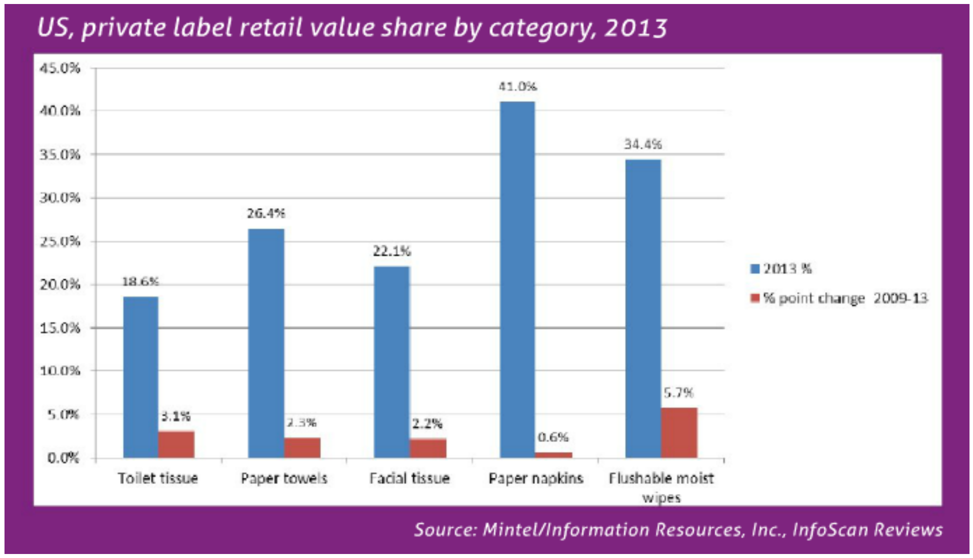
The company's products are sold primarily under its customers' private labels and, to a lesser extent, brand names such as Colortex® and Velvet®. Orchids does not have supply contracts with any of its customers. Orchids' products are daily consumable items so order streams are fairly constant with no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

Private Label Paper Products Market and Outlook

In January 2015, the statistics website Statista.com reported that US sales of private label paper products were approximately $3.6 billion in 2013. Toilet tissue accounted for the greatest percentage of sales at 45%, followed by paper towels at 36%, facial tissue at 10%, and paper napkins at 8% (see chart at right).



In December 2014, international consulting and engineering company Pöyry said that private label tissue products grew at a rate of 8% from 2008 to 2013. Pöyry cited improved product quality and enhanced packaging design as some of the key factors driving the success of private label tissue products.



The September/October 2014 issue of Tissue World magazine reported that private label sales of products in the tissue category (toilet tissue, paper towels, facial tissue, paper napkins, and flushable moist wipes) increased their US market share from 2009 to 2013 (see chart at right). Tissue World said that many consumers who traded down to private label products during the last recession never moved back to name brands. The Private Label Manufacturers Association (PLMA) says that the growth in private label sales is driven by the rising quality and value of private label products.

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

Economic Outlook

In May 2015, the International Monetary Fund (IMF) lowered its economic growth estimate for the US to 2.5% in 2015 and 3% in 2016, down from 3.1% in both 2015 and 2016 previously (April 2015). The IMF said that the US economy in the first quarter of 2015 was derailed by unfavorable weather, a sharp contraction in oil sector investment, the West Coast port strike, and the effects of a stronger dollar. While these developments represent a temporary drag on the US economy, the IMF said that a solid labor market, accommodative financial conditions, and cheaper oil should support a more dynamic path for the remainder of the year.

The second estimate of US GDP growth (released on August 27, 2015) showed the US economy grew at an annual rate of 3.7% in 2Q15, up from a growth estimate of 2.3% (July 30, 2015). The upward revision to GDP growth reflected upward revisions to business investment, inventory investment, state and local government spending, and consumer spending.

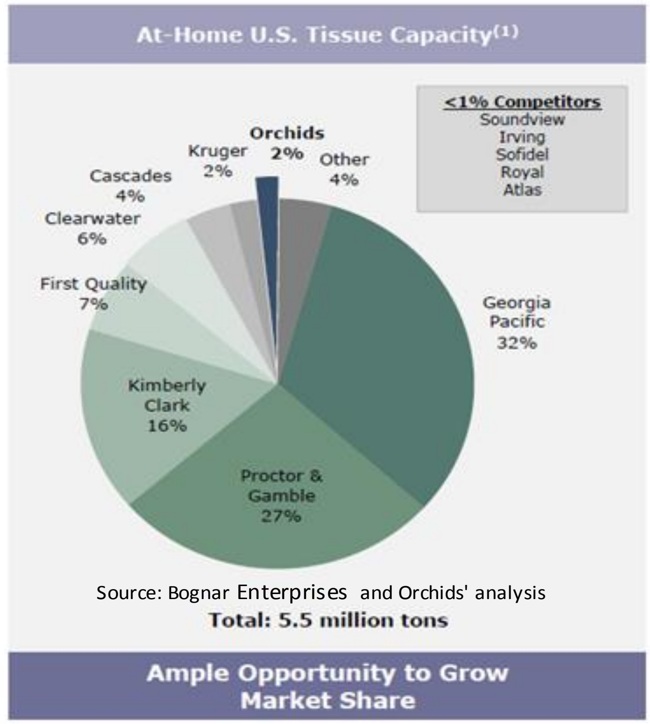
In July 2015, the Federal Reserve Bank of the Tenth Federal Reserve District, which includes the Oklahoma area, released its survey of manufacturing activity. The survey reported that the region's manufacturing activity declined in July 2015, but less so than in previous months. However, the firms surveyed in the manufacturing report said they expect a modest pickup in activity in the coming months.

Market and Competition

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

Dollar and variety stores, Orchids' primary target markets, realized sales of $63.6 billion in 2014. In March 2015, IBISWorld projected dollar and variety stores' average revenue growth to decline 1.3% annually over the next six years to $53 billion by 2021 as competition from rivals such as Walmart, Target and Costco increases.

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



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

	Clearwater Paper	Cascades	Orchids Paper
2014 Revenue	$2.0B	$3.1B	$142.7M
2014 Gross Margin	13.1%	14.0%	18.7%
2013 Revenue	$1.9B	$3.2B	$116.4M
2013 Gross Margin	11.6%	15.0%	24.0%

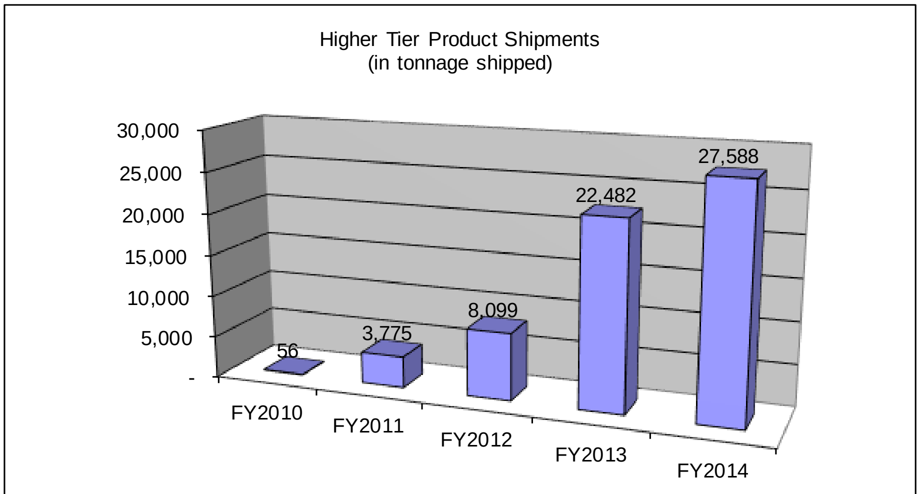
Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In June 2014, Orchids acquired Fabrica's US business, including certain manufacturing assets, and access to 19,800 metric tons of capacity each year to support the value, premium and ultra-premium requirements of the US market. The supply agreement with Fabrica provides access to an additional 7,700 tons in the first two years of the agreement for a total of up to 27,500 tons. The option for the additional tonnage expires at the end of 1H16. In April 2015, Orchids announced it intends to build an integrated tissue paper facility in Barnwell, SC with paper making capacity of between 35,000 and 40,000 tons per year and converting capacity of between 30,000 and 32,000 tons per year.

The company completed an upgraded to one of its converting lines in 2Q15 to further improve manufacturing flexibility and capacity. Orchids also replaced two existing paper machines with a new machine that is expected to increase its Oklahoma plant's annual capacity from 57,000 tons to over 70,000 tons (full production was achieved at the end of 2Q15). In 2014, Orchids' shipped all of its current annual capacity from its Oklahoma plant of approximately 54,000 tons of converted product. The upgrade to its converting line is expected to provide additional annual capacity of approximately 16,000 tons, bringing Orchids' total converted capacity to approximately 70,000 tons, in line with its increased paper making capacity. The cost for these projects is approximately $38.9 million ($25 million for paper machine project and $13.9 million for converting line upgrade) over 2014 and 2015.

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 the additional converting line and new product initiatives (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).



Source: Company filings

2Q and 1H15 Financial Results

2Q15 - Sales of $42.3 million were up 45% from the comparable period in 2014. Net income was $3.9 million or $0.39 per share versus net income of $546,000 or $0.07 per share. We projected 2Q15 sales of $42.5 million and net income of $3.4 million or $0.33 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 43% to $39.8 million while parent roll (bulk tissue paper) sales increased 71% to $2.5 million. The increase in converted product sales was due to a 54% increase in tonnage shipped to 20,334, partly offset by a 7% decrease in net selling prices to $1,957/ton. The decrease in net selling price was primarily due to product mix (away-from-home products acquired in the Fabrica transaction have lower selling prices than Orchids' core at-home products). The increase in parent roll sales was due to a 53% increase in tonnage shipped and a 12% increase in selling prices to $995/ton.

Gross margins decreased to 18.3% from 18.8% primarily due to the lower average selling prices and higher raw material costs.

Selling, general and administrative (SG&A) expenses decreased to $2.2 million from $4.4 million due primarily to $1.5 million of acquisition costs related to the Fabrica transaction in 2014 and a $512,000 decrease in non-cash stock option expense. The company recognized $377,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income increased to $5.1 million or 12.1% of sales from $975,000 or 3.3% of sales.

1H15 - Sales of $79.7 million were up 40% from the comparable period in 2014. Net income was $5.1 million or $0.55 per share versus net income of $3.2 million or $0.39 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 43% to $77.2 million while parent roll (bulk tissue paper) sales decreased 18% to $2.5 million. The increase in converted product sales was due to a 54% increase in tonnage shipped to 39,171, partly offset by a 7% decrease in net selling prices to $1,957/ton. The decrease in net selling price was primarily due to product mix (away-from-home products acquired in the Fabrica transaction have lower selling prices than Orchids' core at-home products). The decrease in parent roll sales was due to a 26% decrease in tonnage shipped and an 11% increase in selling prices to $995/ton.

Gross margins decreased to 15.7% from 20.2% primarily due to the lower average selling prices, higher raw material costs, and the company shutting down two of its older paper machines in September 2014 which reduced the absorption of fixed costs at Orchids' Oklahoma plant and required the company to purchase parent rolls in the open market in 1Q15.

	6mos15	6mos14	% change
	(in thousands $)		
Net sales	79,710	56,955	40.0%
Cost of sales	67,205	45,447	47.9%
Gross profit	12,505	11,508	8.7%
Intangibles amortization	754	108	NMF
SG&A expenses	4,737	6,586	(28.1%)
Operating income (loss)	7,014	4,814	45.7%
Interest expense	278	125	122.4%
Other (income) expense	(338)	(6)	NMF
Income (loss) before taxes	7,074	4,695	50.7%
Income tax expense (benefit)	1,960	1,506	30.1%
Net income (loss)	5,114	3,189	60.4%
Diluted EPS	0.55	0.39	41.7%
Diluted Shares Outstanding	9,344	8,258	
Margin Analysis			
Gross margin	15.7%	20.2%	
SG&A expenses	5.9%	11.6%	
Operating margin	8.8%	8.5%	
Net margin	6.4%	5.6%	

Source: Company filings

Selling, general and administrative (SG&A) expenses decreased to $4.7 million from $6.6 million due primarily to $1.5 million of acquisition costs related to the Fabrica transaction in 2014 and a $363,000 decrease in non-cash stock option expense. The company recognized $754,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income increased to $7 million or 8.8% of sales from $4.8 million or 8.5% of sales.

Liquidity - Based on our forecasts, Orchids should need to raise approximately $45 million in additional debt over the next two years in order to meet its financial obligations through 2016. We project increased interest payments through 2016. As of June 30, 2014, Orchids had cash of $15.8 million, a current ratio of 2.7X versus 0.8X for the paper products industry, and a debt/equity ratio of 0.4X versus 0.4X for the industry. Orchids' total debt has more than tripled in a little more than a year to over $47 million in 2Q15 from approximately $15 million at the end of 2013. The increase in debt was to fund the Fabrica transaction and capital expenditures (details provided below).

Cash from operations of $4.9 million in the first six months of 2015 was primarily due to cash earnings of $10.5 million and a $5.6 million increase in working capital. The increase in working capital was primarily due to increases in accounts receivable and inventory. Cash from operations, capital expenditures of $24.3 million, a $10.9 million net increase in debt, $32.2 million from a stock offering, and $6.7 million in dividend payments were the primary reasons for a $14.8 million increase in cash to $15.8 million as of June 30, 2015.

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

The credit agreement contains covenants that require Orchids to maintain specific fixed charge coverage and leverage ratios. As of June 30, 2015, the company was in compliance with those covenants.

In September 2014, Orchids entered into an agreement with the Oklahoma Development Finance Authority (ODFA) whereby the ODFA agreed to provide the company up to $3.5 million to fund a portion of the cost of a new paper production line. The agreement provides for Orchids' Oklahoma state withholding payroll taxes to be placed into a revolving fund held by ODFA. Each year on September 1, beginning in 2015 and ending in 2020, the ODFA will return these state withholding taxes in the revolving fund to the company, up to an amount totaling

$3.5 million. These amounts are recognized as a note receivable in other current assets in the balance sheet and in other income in the income statement. The company recognized income of $345,000 in 1H15 related to this agreement.

Projections

Fabrica's current run rate is approximately 25,000 tons of converted product annually. With a full year of shipments from Fabrica and recent new business (shipments start in August 2015) bringing Orchids' Oklahoma converted run rate to 67,000 tons annually, we project approximately 84,300 tons of converted products being shipped in 2015. For 2015, we project selling prices of $1,971/ton for converted products and $995/ton for parent rolls, consistent with year-to-date pricing.

Revenue Model

2013	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	52,592	$ 2,084	$ 109,611
Parent Roll	6,726	$ 1,006	$ 6,763
Total	59,318	$ 1,962	$ 116,374
2014	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	67,870	$ 2,039	$ 138,382
Parent Roll	4,922	$ 882	$ 4,342
Total	72,792	$ 1,961	$ 142,724
2015	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	84,300	$ 1,971	$ 166,155
Parent Roll	6,900	$ 995	$ 6,866
Total	91,200	$ 1,897	$ 173,021
2016	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	92,800	$ 2,018	$ 187,270
Parent Roll	5,000	$ 1,019	$ 5,095
Total	97,800	$ 1,967	$ 192,365

Source: Company filings and Taglich Brothers estimates

We have increased our parent roll shipment forecast for 2015 to 6,900 tons (previously 5,000 tons) as the new paper machine in Oklahoma which started up in March 2015 is currently running at full capacity.

Orchids' agreement with Fabrica provides for the purchase of up to 19,800 tons of converted product annually with the option to purchase an additional 7,700 tons annually in each of the first two years. As the option to purchase the additional tonnage ends in 2H16, we project a reduction in 2016 Fabrica converted tonnage to 22,400 from 25,000 tons in 2015. Helping to offset this reduction in tonnage should be the contribution from Orchids' new plant in South Carolina. Orchids' believes it could sell out its converted product line (capacity of approximately 30,000 tons) in South Carolina within two years based on a marketing analysis with existing and new customers in the area. In an effort to be conservative, we project it will take Orchids three years to sell out its converted product line in South Carolina.

We project Orchids will sell approximately 20% of its South Carolina capacity in 2016 or roughly 6,700 tons. Total converted tonnage (from Oklahoma, Fabrica and South Carolina) is projected at approximately 92,800 tons in 2016, higher than our previous projection of 87,816 tons due primarily to a full year of shipments from the new business in Oklahoma which started in August 2015 and the South Carolina shipments. Orchids is currently shipping to customers on the East Coast and the new South Carolina location should reduce overall freight costs. However, as the new paper machine is not expected to be operational until early 2017, Orchids will be buying parent rolls in the secondary market in 2016 which we believe will limit gross margins in that region to approximately 16%.

We project 2016 selling prices of $2,018/ton for converted products and $1,019/ton for parent rolls, consistent with the 2.4% increase in paper selling prices projected by IBISWorld. Paper price gains are supported by the fact that falling demand is being outpaced by contracting supply which should result in slowly increasing prices. Our selling price projection may prove to be conservative as Orchids' average selling prices have increased at an average annual rate of 3.6% over the past three years while paper industry selling prices have remained relatively flat.

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

	2011A	2012A	2013A	2014A	2015E	2016E
Conv. Tons	39,104	43,661	52,592	67,870	84,300	92,800
Total Tons	55,514	53,995	59,318	72,792	91,200	97,800
Conv. Ton %	70.4%	80.9%	88.7%	93.2%	92.4%	94.9%
Gross Margin	16.3%	22.4%	24.0%	18.7%	18.0%	21.5%

Source: Company filings and Taglich Brothers estimates

Orchids' gross margins have steadily improved since 2011 as growing sales of higher margin converted products have increased. However, in 2014, gross margins fell due primarily to lower selling prices, the company shutting down and demolishing two of its older paper machines in 2H14, starting the construction and installation of a new paper machine, and purchasing parent rolls in the open market. This had the adverse effect of increasing COGS by approximately $2.1 million in 2014. Excluding these adverse effects, 2014 gross margins would have been approximately 20.2%. The seasonality of higher energy and transportation costs in the Mexicali plant adversely affects gross margins by approximately 3% in the second half of a year. The company said that higher energy costs typical in Mexico during the summer months flow through the supply agreement in the trailing quarters (Q3 and Q4). Thus we are projecting gross margins to be lower in the second half of a year than the first half (excluding 2015 with its 1H parent roll purchases). We project gross margins increasing in 2016 (see table above right) as converted product sales increase.

We project 2015 revenue of $173 million and net income of $13.3 million or $1.35 per share. The change in our projections (previously $173.5 million revenue and $13 million or $1.30 per share net income) primarily reflects 2Q15 results.

We project SG&A expenses of $9.9 million in 2015 (of which approximately 1% or $1.7 million of sales are commission-related), lower by $1.7 million from 2014 due primarily to the absence of $1.6 million costs related to the Fabrica transaction. Operating margins are projected to increase to 11.4% from 10% due primarily to lower SG&A expenses. The tax rate is estimated at 31.6%.

For 2015 we project Orchids will generate $29.9 million cash from operations primarily from cash earnings. Cash from operations will not cover our projected $69.4 million in capital expenditures (primarily for South Carolina facility) and $12.3 million in dividend payments requiring the company to raise $32.2 million from the sale of common stock (which it did in April 2015) and $25.9 million from increased debt. We project a $4.1 million increase in cash to $5.2 million at December 31, 2015.

We project 2016 revenue of $192.4 million and net income of $18.1 million or $1.75 per share. The change in our projections (previously $185.4 million revenue and $17.2 million or $1.66 per share net income) stems primarily from increased shipments of converted products.

We project SG&A expenses of $11.6 million in 2016 (of which approximately 1% or $1.9 million of sales are commission-related). Operating margins are projected to increase to 14.8% from 11.4% due primarily to gross profit gains. The tax rate is estimated at 33.8%.

For 2016 we project Orchids will generate $37.4 million cash from operations primarily from cash earnings. Cash from operations will not cover our projected $59 million in capital expenditures (primarily for South Carolina facility) and $12.3 million in dividend payments requiring the company to raise $30 million from increased debt. We project a $3.5 million decrease in cash to $1.7 million at December 31, 2016.

Risks

Customer concentration

Four customers (Dollar General, HEB, Family Dollar and Wal-Mart) accounted for approximately 72% of total sales in 2014. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

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

Orchids may not be able to sell the capacity from its expanded converting line
Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

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

South Carolina construction project
Orchids' South Carolina construction project is anticipated to begin in 2Q15 with the first converting line expected to be operational at the end of 2015, the second in 2Q16, and the new paper machine in early 2017. Total cost is estimated at $110 million to $127 million over a two year period. There can be no assurance that the construction, installation, and ramp of production will proceed as scheduled, for the anticipated costs, or at all.

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

Liquidity risk
Microcap stocks typically have small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 8.7 million shares in the float with an average daily volume of approximately 78,000 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.

Orchids Paper Products Company

Consolidated Balance Sheets
(in thousands $)

	2012A	2013A	2014A	6/15A	2015E	2016E
Cash	5,734	7,205	1,021	15,802	5,166	1,660
Accounts receivable	5,406	6,585	10,195	12,730	12,359	13,741
Inventories	10,275	10,921	9,650	13,100	11,802	12,568
Short term investments	5,027	5,035	-	-	-	-
Income taxes receivable	607	-	634	-	-	-
Prepaid expenses	637	863	1,285	948	948	948
VAT receivable	-	-	1,734	1,626	1,626	1,626
Other	44	146	899	853	853	853
Deferred income taxes	393	552	614	592	592	592
Total current assets	28,123	31,307	26,032	45,651	33,346	31,988
Property, plant and equipment	91,188	95,745	119,720	139,561	175,704	217,869
Intangible assets	-	-	17,237	16,483	15,737	14,537
Goodwill	-	-	7,560	7,560	7,560	7,560
Deferred debt issuance costs	47	40	190	912	912	912
Total Assets	119,358	127,092	170,739	210,167	233,259	272,866
Bank overdrafts	-	-	1,706	-	-	-
Accounts payable	3,685	3,685	11,391	10,185	13,932	14,836
Accrued liabilities	2,832	4,030	3,747	4,230	4,542	5,050
Current portion of long-term debt	1,152	1,152	2,700	2,700	2,700	2,700
Total current liabilities	7,669	8,867	19,544	17,115	21,174	22,586
Long-term debt	15,079	13,927	33,662	44,600	59,600	89,600
Deferred income taxes	19,432	19,449	17,020	16,435	16,435	16,435
Total liabilities	42,180	42,243	70,226	78,150	97,209	128,621
Total stockholders' equity	77,178	84,849	100,513	132,017	136,050	144,245
Total liabilities & stockholders' equity	119,358	127,092	170,739	210,167	233,259	272,866

Source: Company filings and Taglich Brothers' estimates

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

	2012A	2013A	2014A	2015E	2016E
Net sales	100,819	116,374	142,724	173,021	192,365
Cost of sales	78,253	88,494	115,985	141,854	151,061
Gross profit	22,566	27,880	26,739	31,167	41,304
Intangibles amortization			753	1,508	1,200
SG&A expenses	8,456	9,471	11,675	9,937	11,600
Operating income (loss)	14,110	18,409	14,311	19,722	28,504
Interest expense	407	371	271	678	1,200
Other (income) expense	302	(173)	181	(338)	-
Income (loss) before taxes	13,401	18,211	13,859	19,382	27,304
Income tax expense (benefit)	4,144	4,892	4,394	6,120	9,229
Net income (loss)	9,257	13,319	9,465	13,262	18,075
EPS	1.18	1.67	1.11	1.35	1.75
Shares Outstanding	7,832	7,937	8,539	9,829	10,320
Margin Analysis					
Gross margin	22.4%	24.0%	18.7%	18.0%	21.5%
SG&A expenses	8.4%	8.1%	8.2%	5.7%	6.0%
Operating margin	14.0%	15.8%	10.0%	11.4%	14.8%
Net margin	9.2%	11.4%	6.6%	7.7%	9.4%
Tax rate	30.9%	26.9%	31.7%	31.6%	33.8%
Year / Year Growth					
Total Revenues	3.0%	15.4%	22.6%	21.2%	11.2%
Net Income	49.4%	43.9%	(28.9%)	40.1%	36.3%
EPS	47.3%	41.3%	(33.6%)	21.7%	29.8%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2014, 2015, and 2016
(in thousands $)

	3/14A	6/14A	9/14A	12/14A	2014A	3/15A	6/15A	9/15E	12/15E	2015E	3/16E	6/16E	9/16E	12/16E	2016E
Net sales	27,759	29,196	44,429	41,340	142,724	37,415	42,295	47,750	45,561	173,021	45,015	49,350	50,200	47,800	192,365
Cost of sales	21,741	23,706	35,645	34,893	115,985	32,629	34,576	38,200	36,449	141,854	34,662	38,000	40,160	38,240	151,061
Gross profit	6,018	5,490	8,784	6,447	26,739	4,786	7,719	9,550	9,112	31,167	10,353	11,351	10,040	9,560	41,304
Intangibles amortization		108	322	323	753	377	377	377	377	1,508	300	300	300	300	1,200
SG&A expenses	2,179	4,407	2,541	2,548	11,675	2,497	2,240	2,600	2,600	9,937	2,720	2,970	3,030	2,880	11,600
Operating income (loss)	3,839	975	5,921	3,576	14,311	1,912	5,102	6,573	6,135	19,722	7,333	8,081	6,710	6,380	28,504
Interest expense	13	112	90	56	271	214	64	200	200	678	300	300	300	300	1,200
Other (income) expense	1	(7)	147	40	181	(186)	(152)	-	-	(338)	-	-	-	-	-
Income (loss) before taxes	3,825	870	5,684	3,480	13,859	1,884	5,190	6,373	5,935	19,382	7,033	7,781	6,410	6,080	27,304
Income tax expense (benefit)	1,182	324	1,854	1,034	4,394	648	1,312	2,154	2,006	6,120	2,377	2,630	2,167	2,055	9,229
Net income (loss)	2,643	546	3,830	2,446	9,465	1,236	3,878	4,219	3,929	13,262	4,656	5,151	4,243	4,025	18,075
EPS	0.32	0.07	0.44	0.28	1.11	0.14	0.39	0.41	0.38	1.35	0.45	0.50	0.41	0.39	1.75
Shares Outstanding	8,153	8,346	8,824	8,823	8,539	8,824	9,853	10,320	10,320	9,829	10,320	10,320	10,320	10,320	10,320
Margin Analysis															
Gross margin	21.7%	18.8%	19.8%	15.6%	18.7%	12.8%	18.3%	20.0%	20.0%	18.0%	23.0%	23.0%	20.0%	20.0%	21.5%
SG&A expenses	7.8%	15.1%	5.7%	6.2%	8.2%	6.7%	5.3%	5.4%	5.7%	5.7%	6.0%	6.0%	6.0%	6.0%	6.0%
Operating margin	13.8%	3.3%	13.3%	8.7%	10.0%	5.1%	12.1%	13.8%	13.5%	11.4%	16.3%	16.4%	13.4%	13.3%	14.8%
Net margin	9.5%	1.9%	8.6%	5.9%	6.6%	3.3%	9.2%	8.8%	8.6%	7.7%	10.3%	10.4%	8.5%	8.4%	9.4%
Tax rate	30.9%	37.2%	32.6%	29.7%	31.7%	34.4%	25.3%	33.8%	33.8%	31.6%	33.8%	33.8%	33.8%	33.8%	33.8%
Year / Year Growth															
Total Revenues	4.3%	(0.1%)	49.3%	34.3%	22.6%	34.8%	44.9%	7.5%	10.2%	21.2%	20.3%	16.7%	5.1%	4.9%	11.2%
Net Income	(14.5%)	(82.6%)	2.9%	(27.2%)	(28.9%)	(53.2%)	NMF	10.2%	60.6%	40.1%	276.7%	32.8%	0.6%	2.4%	36.3%
EPS	(17.3%)	(83.4%)	(6.4%)	(34.0%)	(33.6%)	(56.8%)	NMF	(7.1%)	37.3%	21.7%	222.1%	26.8%	0.6%	2.4%	29.8%

Source: Company filings and Taglich Brothers' estimates

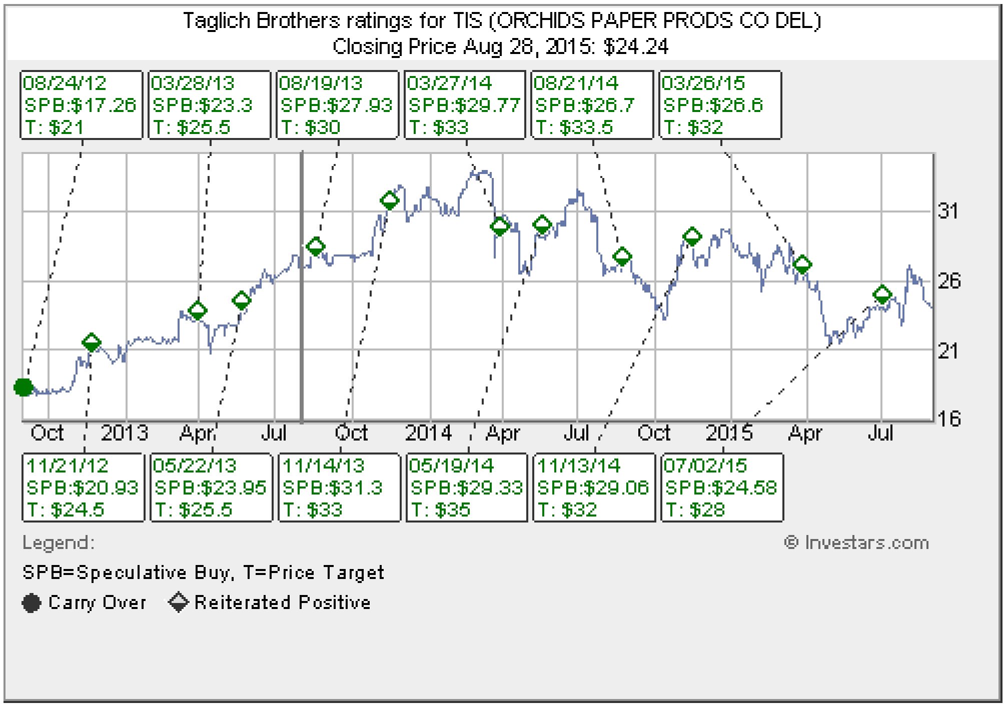
Orchids Paper Products Company

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

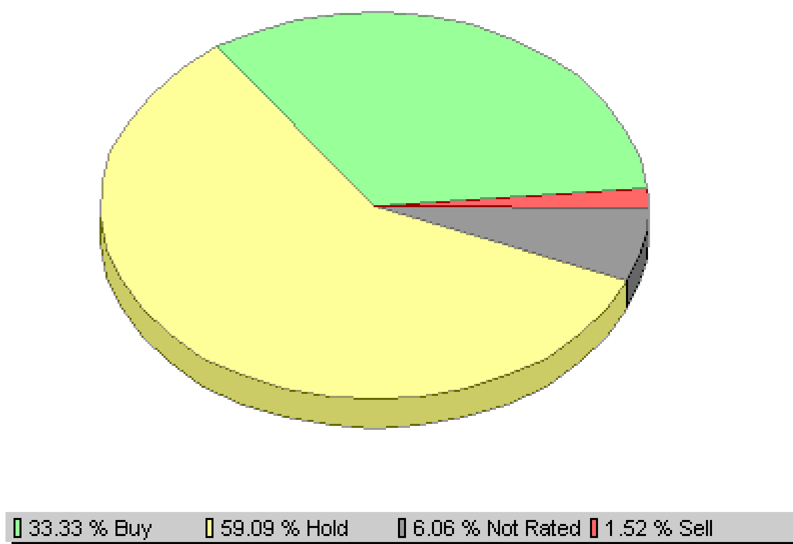
	2012A	2013A	2014A	6mos15A	2015E	2016E
Net income(loss)	9,257	13,319	9,465	5,114	13,262	18,075
Depreciation and amortization	7,548	7,621	9,749	5,276	14,916	18,035
Provision for doubful accounts	(20)	10	20	-	20	20
Deferred income taxes	648	(142)	(2,491)	(563)	(563)	-
Stock based compensation	346	346	1,879	690	2,000	2,000
(Gain) loss on disposal of property, plant and equipment	336	(146)	8	-	-	-
Cash earnings	18,115	21,008	18,630	10,517	29,635	38,130
Changes in assets and liabilities						
Accounts receivable	1,553	(1,189)	(2,556)	(2,535)	(2,164)	(1,382)
Inventories	(2,464)	(646)	1,272	(3,450)	(2,152)	(766)
Prepaid expenses	(107)	(226)	(422)	337	337	-
Income taxes receivable	(322)	607	(634)	634	823	(20)
Other current assets	294	44	(3,560)	154	46	-
Accounts payable	165	-	7,706	(1,206)	2,541	904
Acrrued liabilities	217	1,198	(284)	483	795	508
(Increase) decrease in working capital	(664)	(212)	1,522	(5,583)	226	(756)
Net Cash Provided by (Used in) Operations	17,451	20,796	20,152	4,934	29,861	37,374
Acquisition of Fabrica's US business	-	-	(16,700)	-	-	-
Proceeds from the sale of investment securities	-	(8)	5,037	-	-	-
Purchase of investment securities	(3,008)	-	(2)	-	-	-
Purchase of property and equipment	(6,780)	(12,171)	(25,769)	(24,262)	(69,400)	(59,000)
Net Cash Provided by (Used in) Investing	(9,788)	(12,179)	(37,434)	(24,262)	(69,400)	(59,000)
Proceeds from the sale of common stock	-	-	-	32,155	32,155	-
Borrowings on long-term debt	-	-	30,000	20,000	35,000	30,000
Principal payments on long-term debt	(1,152)	(1,152)	(16,429)	(1,350)	(1,350)	-
Net borrowings (repayments) on revolving credit line	-	-	7,712	(7,712)	(7,712)	-
Bank overdrafts	-	-	1,706	(1,706)	(1,706)	-
Proceeds from the exercise of stock options	974	3,305	79	210	400	400
Excess tax benefit of stock options exercised	395	1,409	20	(5)	20	20
Deferred debt issuance cost	-	-	(209)	(823)	(823)	-
Dividends paid	(6,443)	(10,708)	(11,781)	(6,660)	(12,300)	(12,300)
Net Cash Provided by (Used in) Financing	(6,226)	(7,146)	11,098	34,109	43,684	18,120
Net Change in Cash	1,437	1,471	(6,184)	14,781	4,145	(3,506)
Cash - Beginning of Period	4,297	5,734	7,205	1,021	1,021	5,166
Cash - End of Period	5,734	7,205	1,021	15,802	5,166	1,660

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	1	4
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 124,473 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 67,268 shares of TIS common stock and 135,413 shares of restricted stock. Richard Oh, Managing Director of Taglich Brothers, Inc., owns 13,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 44,150 shares of TIS common stock and 33,750 stock options. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

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

General Disclosures

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Analyst Certification

I, John Nobile, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be, directly, or indirectly, related to the specific recommendations or views contained in this report.

Public Companies Mentioned in this Report

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

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.