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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
November 13, 2014

TIS $29.06 — (NYSE MKT)

	2012A	2013A	2014E	2015E
Revenues (millions)	$100.8	$116.4	$140.9	$161.8
Earnings per share	$1.18	$1.67	$1.18	$1.91

52-Week range	$34.20 – $22.76	Fiscal year ends:	December
Shares outstanding a/o 10/31/14	8.8 million	Revenue per share (TTM)	$15.81
Approximate float	7.5 million	Price/Sales (TTM)	1.8X
Market capitalization	$256 million	Price/Sales (FY2015)E	1.6X
Tangible book value/share	$12.66	Price/Earnings (TTM)	23.2X
Price/tangible book value	2.3X	Price/Earnings (FY2015)E	15.2X
Annual dividend	$1.40	Dividend Yield	4.8%

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 and lowering 12-month price target to $32.00 (previously $33.50) due to reduced earnings estimates. Our target implies a total (including dividend) year-ahead return of 15%.

In October 2014, IBISWorld said that large discount retailers such as Walmart (accounted for 9% of Orchids' converted product sales in 2013) and Target were increasingly focusing on private-label goods. IBISWorld expects this growth to continue over the next five years, albeit at a moderate rate.

In 3Q14, its first full quarter contribution, Fabrica accounted for approximately $11.5 million of Orchids' revenue.

Although Fabrica's sales consist primarily of lower-tier products, Orchids margins are higher from tissue products versus bulk tissue paper. Orchids should increase tissue product tonnage by 26% in 2014 and 19% in 2015.

We project 2014 revenue of $140.9 million and EPS of $1.18 (previously $131.6 million revenue and EPS of $1.30). We project 2015 revenue of $161.8 million and EPS of $1.91 (previously $153.7 million revenue and EPS of $2.04). The change in our estimates stems primarily from increased lower margin Fabrica sales.

Orchids reported (10Q released 11/4/14) 3Q14 revenue of $44.4 million and EPS of $0.44. We projected 3Q14 revenue of $37.5 million and EPS of $0.45. In the year earlier quarter, Orchids generated revenue of $29.8 million and EPS of $0.47.

Please view our disclosures on pages 14 - 16.

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Recommendation and Valuation

Reiterating **Speculative Buy** rating and lowering our **12-month price target to $32.00 (previously $33.50)** due to lowered earnings estimates. Our target implies a total (including dividend) year-ahead return of 15%.

Orchids' shares traded at its three-year historic average of 20X TTM earnings in 2013 (which reflects significant levels of higher tier converted products and expectations of dividends) and is currently trading at a multiple of 23X TTM earnings. We believe the multiple will pull back from its current level due to margin compression stemming from lower-tier products. We believe that during the next twelve months, the market will accord the stock a multiple of 17X earnings. Applying a multiple of 17X to our 2015 EPS estimate of $1.91, discounted to a twelve-month value of $1.89, gives us a price target of approximately $32.00 per share.

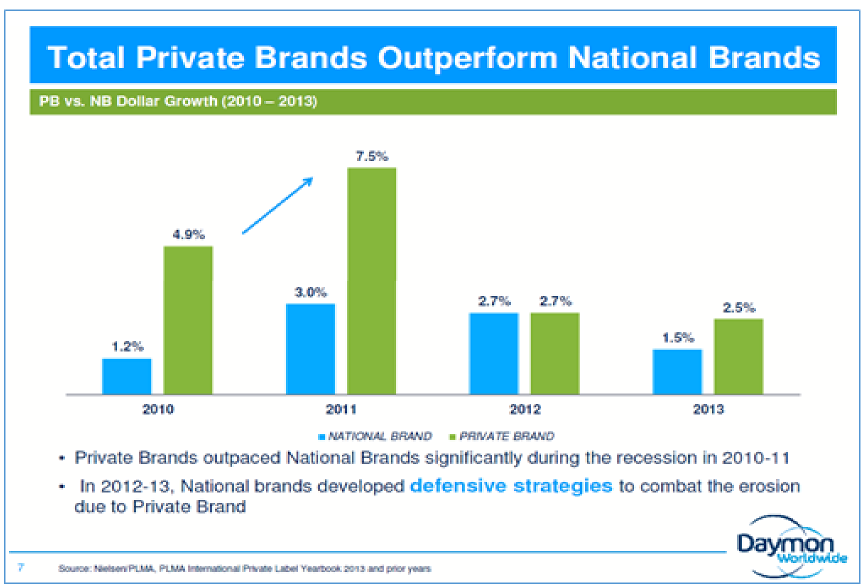
Business

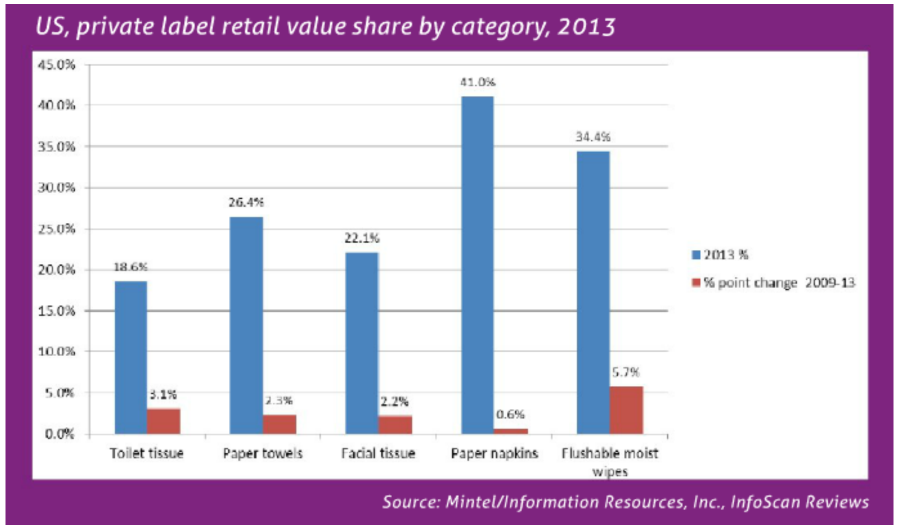
Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, converting it into a full line of tissue products, including paper towels, bathroom tissue and paper napkins for the private label segment of the consumer or "at home" market. The company targets the discount retail 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 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, under 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 Outlook

The Private Label Manufacturers Association (PLMA) reported that shoppers reached for private label brands for almost one out of every four products they bought at supermarkets in 2013. Private label brands hit an all-time high of $112 billion in US sales in 2013 and accounted for a 23.4% market share. According to statistics published by the PLMA and Nielsen, private label sales grew an average of 4.4% annually from 2009 to 2013 vs. average growth of 2.1% for national brands (see chart at right). The growth in private label sales is driven by the rising quality and value of private label products.





In the September/October 2014 issue of Tissue World magazine, it was 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 recent recession never moved back to name brands.

In an October 2014 sanitary paper product manufacturing industry report, IBISWorld said that large discount retailers such as Walmart (accounted for 9% of Orchids' converted product sales in 2013) 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 of 2% annually in the six years to 2020.

Economic Outlook

In October 2014, the International Monetary Fund (IMF)'s economic growth estimate for the US was revised upward to 2.2% in 2014 from 1.7% (July 2014) while the 2015 estimate remained unchanged at 3.1%. The IMF said that US employment growth has been strong and household balance sheets have improved amid favorable financial conditions and a recovering housing market.

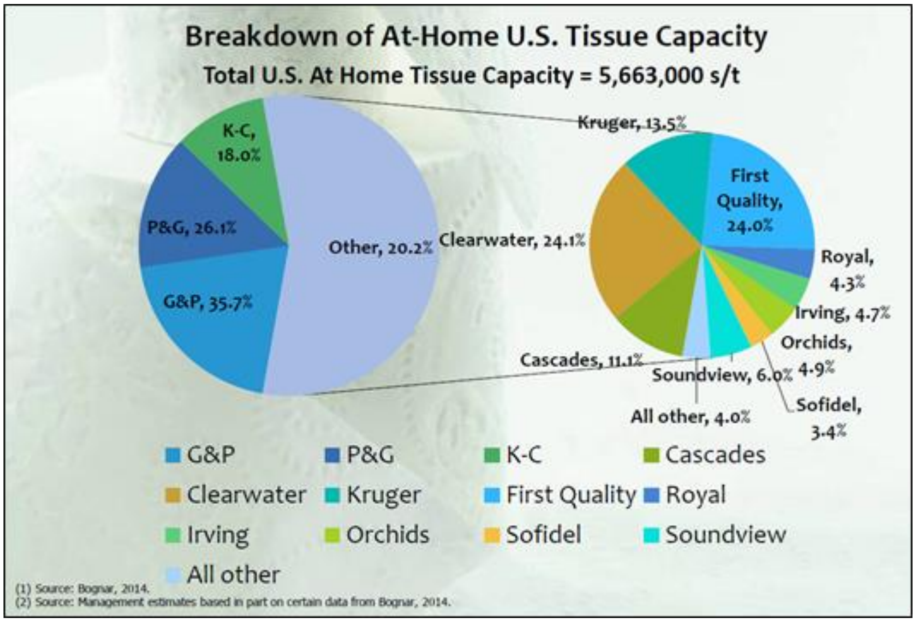
In October 2014, the Federal Reserve Bank of the Tenth Federal Reserve District, which includes the Oklahoma area, released its survey of manufacturing activity. The survey reported that the region's manufacturing activity grew at a modest pace and producers' optimism for future activity remained solid.

Although tissue products are considered consumer staples and changes in the economy do not typically affect sales of overall tissue products, the recession did help in driving consumption to private label products such as Orchids'.

Market and Competition

In October 2014, IBISWorld estimated the 2014 US sanitary paper product market at $13 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $3.1 billion. The overall industry is projected to grow at an average annual growth rate of 2% over the next six years to $14.6 billion by 2020.

Dollar and variety stores, Orchids' primary target markets, are estimated to realize sales of $61.8 billion in 2014. In October 2014, IBISWorld projected dollar and variety stores' average revenue growth to decline 2.9% annually over the next six years to $51.7 billion by 2020 as competition from rivals such as Walmart, Target and Costco increases.



Due to the company's proximity to the dollar and grocery stores in its target market, Orchids' products should save these customers approximately 70% in shipping costs (according to a food broker source in Texas) compared with most competitors' products, a significant competitive advantage. However, over the past four years, competitors 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 and 24% in 2013.

Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of delivered product costs. In Oklahoma and the immediately surrounding area, Clearwater Paper's Oklahoma City, Oklahoma plant, Georgia-Pacific's Muskogee, Oklahoma plant, Cascades' Memphis, Tennessee plant, and Pacific Paper's Memphis, Tennessee plant give these competitors a significant presence.

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.

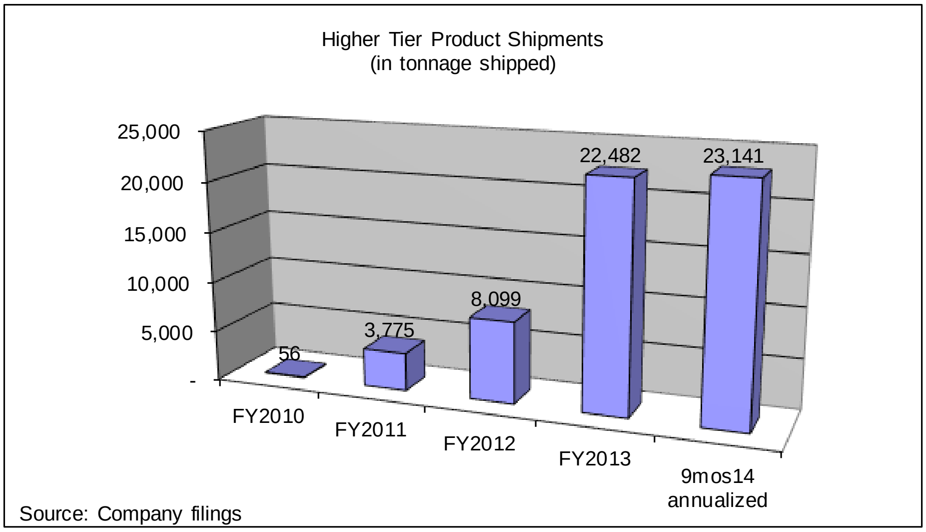
	Clearwater Paper	Cascades	Orchids Paper
2013 Revenue	$1.9B	$3.8B	$116.4M
2013 Gross Margin	11.6%	14.9%	24.0%
2012 Revenue	$1.9B	$3.6B	$100.8M
2012 Gross Margin	14.2%	13.4%	22.4%

Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In 2010, Orchids' increased its annual converting capacity by approximately four million cases with the installation of a new converting line, bringing its annual converting capacity to 12.5 million cases per year. In 2011, Orchids made changes to its operating procedures and invested in equipment in order to develop higher quality products for the mid-tier market. In 2014 Orchids acquired Fabrica's US business, including certain manufacturing assets and access to 18,000 metric tons of capacity each year to support the value, premium and ultra-premium requirements of the US market.

The company plans to upgrade one of its converting lines to further improve manufacturing flexibility and capacity. Orchids also plans to replace 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. The converting line project is expected to be completed in 1Q15 and the paper machine is expected to be at full production in 2Q15.

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).

3Q and Nine Months 2014Financial Results

3Q14 - Sales of $44.4 million were up 49% compared to comparable period in 2013. Net income was $3.8 million or $0.44 per share versus net income of $3.7 million or $0.47 per share. We projected 3Q14 sales of $37.5 million and net income of $4 million or $0.45 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 53% to $43.2 million while parent roll (bulk tissue paper) sales decreased 19% to $1.3 million. The increase in converted product sales was due to a 57% increase in tonnage shipped to 21,528, partly offset by a 3% decrease in net selling prices to $2,005/ton. The decrease in parent roll sales was due to a 16% decrease in net selling prices to $851/ton and a 4% decrease in tonnage shipped to 1,494.

	9mos14	9mos13	% change
	(in thousands $)		
Net sales	101,384	85,601	18.4%
Cost of sales	81,092	64,938	24.9%
Gross profit	20,292	20,663	-1.8%
Intangibles amortization	430	-	NMF
SG&A expenses	9,127	6,912	32.0%
Operating income (loss)	10,735	13,751	-21.9%
Interest expense	215	280	-23.2%
Other (income) expense	141	(21)	-771.4%
Income (loss) before taxes	10,379	13,492	-23.1%
Income tax expense (benefit)	3,360	3,533	-4.9%
Net income (loss)	7,019	9,959	-29.5%
Diluted EPS	0.83	1.25	-33.5%
Diluted Shares Outstanding	8,442	7,909	
Margin Analysis			
Gross margin	20.0%	24.1%	
SG&A expenses	9.0%	8.1%	
Operating margin	10.6%	16.1%	
Net margin	6.9%	11.6%	

Source: Company filings

Gross margins decreased to 19.8% from 24% primarily due to lower overhead coverage as the company shut down two of its older paper machines in September 2014 (the lower production had a negative effect on absorption of fixed overhead costs). Selling, general and administrative (SG&A) expenses increased to $2.5 million from $2.1 million primarily due to increased stock option expense granted to management in 2014. The company recognized $322,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income increased to $5.9 million or 13.3% of sales from $5 million or 16.9% of sales.

Nine Months 2014 - Sales increased 18% to $101.4 million. Net income was $7 million or $0.83 per share versus net income of $10 million or $1.25 per share.

Converted product sales increased 20% to $97 million while parent roll sales decreased 13% to $4.3 million. The increase in converted product sales was due to a 21% increase in tonnage shipped to 47,006; net selling prices remained relatively flat at $2,064/ton. The decrease in parent roll sales was due to a 14% decrease in net selling prices to $882/ton partially offset by a 1% increase in parent roll tonnage shipped to 4,922.

Gross margins decreased to 20% from 24.1% primarily due to higher raw material (fiber) costs and lower overhead coverage as the company shut down two of its older paper machines in September 2014. Selling, general and administrative (SG&A) expenses increased to $9.1 million from $6.9 million primarily due to costs related to the Fabrica transaction. The company recognized $430,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income decreased to $10.7 million or 10.6% of sales from $13.8 million or 16.1% of sales.

Liquidity - Based on our forecasts, Orchids should have sufficient resources to meet its financial obligations through 2015. As of September 30, 2014, Orchids had a strong balance sheet with cash of $3.5 million and a debt/equity ratio of 0.3 versus 0.4 for the paper products industry.

Cash from operations of $15.9 million in the first nine months of 2014 was primarily due to cash earnings of $14.4 million and a $1.4 million decrease in working capital. The decrease in working capital was primarily due to an increase in accounts payable partially offset by an increase in accounts receivable. Capital expenditures of $13.3 million, $16.7 million for the acquisition of Fabrica, and $5 million proceeds from the sale of investment securities resulted in $25 million cash used in investing activities. These items combined with $14.2 million net borrowings and $8.7 million in dividend payments resulted in a $3.7 million decrease in cash to $3.5 million as of September 30, 2014.

In June 2014, Orchids entered into a $75 million credit agreement with U.S. Bank National Association. The agreement includes a $45 million revolving credit line due June 2019 and a $30 million term loan due June 2020. The agreement effectively extended and increased Orchids' revolving working capital line of credit from $15 million to $25 million, increased Orchids' revolving line of credit to include $20 million for the purchase and construction of assets in Oklahoma, and refinanced Orchids' $10.8 million real estate loan and $7.2 million machinery and equipment loan into a single $30 million term loan, which also provided funding for the $16.7 million paid in accordance with the Fabrica agreement. Borrowings under the agreement will bear interest at variable rates with margins ranging from 1% to 2% above LIBOR.

The credit agreement contains covenants that require Orchids to maintain specific fixed charge coverage and leverage ratios. As of September 30, 2014, 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.

Projections

3Q14 was the first full quarter that Fabrica's sales were consolidated with Orchids. Fabrica contributed approximately $11.5 million in converted product revenue on 6,115 tons shipped for an average selling price of $1,881/ton. The remaining $31.7 million in converted product revenue was from core sales of 15,413 tons at a price of $2,054/ton. Combined selling prices averaged $2,005/ton in 3Q14. The reason for the lower selling prices from Fabrica is due to Fabrica's shipments being primarily value or lower tier products which have lower selling prices.

With the additional shipments from Fabrica and Orchids' current year-to-date core growth rate of 1%, we project approximately 66,300 tons of converted products being shipped in 2014, up from our previous projection of 60,500 tons.

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue ($,000)
2013			
Converted	52,592	$ 2,084	$ 109,611
Parent Roll	6,726	$ 1,006	$ 6,763
Total	59,318	$ 1,962	$ 116,374
2014			
Converted	66,300	$ 2,060	$ 136,578
Parent Roll	4,922	$ 882	$ 4,341
Total	71,222	$ 1,979	$ 140,919
2015			
Converted	78,700	$ 2,045	$ 160,942
Parent Roll	1,000	$ 900	$ 900
Total	79,700	$ 2,031	$ 161,842

Source: Company filings and Taglich Brothers estimates

We project a full year's worth of shipments from Fabrica should increase Orchids' converted product shipments to 78,700 tons in 2015. We project 2014 selling prices of $2,060/ton for converted products and $882/ton for parent rolls. Our converted product selling price projection is an average of the selling price of $2,115/ton prior to the Fabrica acquisition (June 2014) and the current selling price of $2,005/ton which includes a full quarter from Fabrica. For 2015, we project selling prices of $2,045/ton for converted products and $900/ton for parent rolls. The decrease in selling prices in 2015 is due to a full year of contribution from Fabrica with its lower selling prices. The increase in 2015 parent roll selling prices is consistent with the 2% increase in paper selling prices projected by IBISWorld.

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

We project gross margins decreasing to 19.9% in 2014 primarily due to higher raw material costs but increasing to 22.3% in 2015 as increased sales of higher margin converted products more than offset increasing raw material costs. Paper costs are projected to increase to $795/ton in 2014 and $805/ton in 2015 as wood pulp prices increase and Orchids buys parent rolls in the secondary market in 4Q14 and 1Q15 while the company transitions to a new paper machine. We project other variable costs in 2014 and 2015 to increase primarily due to inflationary pressures. Fixed costs per ton are projected to increase in 2014 with the Fabrica acquisition but the manufacturing efficiencies associated with increased production from the new machine should help to reduce fixed costs per ton in 2015. The table above shows our estimated costs per ton (variable and fixed) over the past four years and our estimates for 2014 and 2015.

COGS (in thousands $) Model

	2010A	2011A	2012A	2013A	2014E	2015E
Variable cost (paper)	$ 43,947	$ 46,337	$ 42,566	$ 43,949	$ 56,621	$ 64,159
Est. variable cost (other)	$ 20,334	$ 21,373	$ 21,110	$ 27,699	$ 34,471	$ 38,973
Total est. variable costs	$ 64,281	$ 67,710	$ 63,676	$ 71,648	$ 91,093	$ 103,132
Est. fixed cost (overhead)	$ 6,778	$ 7,124	$ 7,036	$ 9,233	$ 11,540	$ 12,188
Fixed cost (depreciation)	$ 5,693	$ 7,052	$ 7,541	$ 7,613	$ 10,303	$ 10,454
Total est. fixed costs	$ 12,471	$ 14,176	$ 14,577	$ 16,846	$ 21,843	$ 22,642
COGS	$ 76,752	$ 81,886	$ 78,253	$ 88,494	$ 112,936	$ 125,774
Tons shipped	56,663	55,514	53,995	59,318	71,222	79,700
Variable (paper) costs/ton	$ 776	$ 835	$ 788	$ 741	$ 795	$ 805
Est. variable (other) cost/ton	$ 359	$ 385	$ 391	$ 467	$ 484	$ 489
Total variable costs/ton	$ 1,134	$ 1,220	$ 1,179	$ 1,208	$ 1,279	$ 1,294
Fixed costs/ton	$ 220	$ 255	$ 270	$ 284	$ 307	$ 284
Total COGS/ton	$ 1,355	$ 1,475	$ 1,449	$ 1,492	$ 1,586	$ 1,578
Gross profit	$ 15,752	$ 15,957	$ 22,566	$ 27,880	$ 27,983	$ 36,026
Gross margin	17.0%	16.3%	22.4%	24.0%	19.9%	22.3%

Source: Company filings and Taglich Brothers estimates

We project 2014 revenue of $140.9 million and net income of $10 million or $1.18 per share. The change in our projections (previously $131.6 million revenue and $11.1 million or $1.30 per share net income) stems from greater than anticipated sales contribution from Fabrica and lower gross margins as Fabrica's sales are primarily lower tier products.

We project SG&A expenses of $11.5 million in 2014 (of which approximately 1.2% or $1.7 million of sales are commission-related). Our SG&A projection is up over 2013 due primarily to the inclusion of Fabrica resulting in operating margins of 11.1%. The tax rate is estimated at 32%.

For 2014 we project cash earnings of $20.8 million and a $4.5 million increase in working capital will result in cash from operations of $16.2 million. The increase in working capital is primarily due to increases in inventories and other current assets. Cash from operations will fall short of other outflows: $34.7 million of capital expenditures (from investments in a new paper machine, a converting line upgrade, the acquisition of Fabrica's US business) necessitating a $24.2 million net increase in debt, and dividends of $11.8 million. Cash should drop by $6.1 million to $1.1 million at December 31, 2014.

We project 2015 revenue of $161.8 million and net income of $16.8 million or $1.91 per share. The change in our projections (previously $153.7 million revenue and $18 million or $2.04 per share net income) stems primarily from increased Fabrica sales with their lower margins.

We project SG&A expenses of $9.6 million in 2015 (of which approximately 1.2% or $1.9 million of sales are commission-related), lower by $1.9 million due primarily to the absence of $1.6 million costs related to the Fabrica transaction and $0.8 million lower stock option expense. Operating margins are projected to increase to 15.5% from 11.1% due primarily to the gross profit gains discussed earlier and lower SG&A expenses. The tax rate is estimated at 32%.

For 2015 we project Orchids will generate $28.1 million cash from operations primarily from cash earnings. Cash from operations will cover $12 million of capital expenditures, a $2 million pay down of debt, and $12.3 million in dividends, increasing cash by $1.9 million to $3.1 million at December 31, 2015.

Risks

Customer concentration

Four customers (Dollar General, Family Dollar, HEB and Wal-Mart) accounted for approximately 81% of converted product sales in 2013. 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.

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 7.5 million shares in the float with an average daily volume of approximately 56,000 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 $)

	2011A	2012A	2013A	9/14A	2014E	2015E
Cash	4,297	5,734	7,205	3,491	1,135	3,061
Accounts receivable	6,939	5,406	6,585	11,312	7,974	9,155
Inventories	7,811	10,275	10,921	10,144	13,937	15,522
Short term investments	2,019	5,027	5,035	-	-	-
Income taxes receivable	285	607	-	-	-	-
Prepaid expenses	530	637	863	1,163	1,163	1,163
Other	338	44	146	2,725	2,725	2,725
Deferred income taxes	410	393	552	544	544	544
Total current assets	22,629	28,123	31,307	29,379	27,478	32,171
Property, plant and equipment	92,285	91,188	95,745	109,422	115,484	117,030
Intangible assets	-	-	-	17,560	17,238	15,950
Goodwill	-	-	-	7,560	7,560	7,560
Deferred debt issuance costs	54	47	40	199	199	199
Total Assets	114,968	119,358	127,092	164,120	167,959	172,910
Accounts payable	3,520	3,685	3,685	10,598	4,703	5,237
Accrued liabilities	2,615	2,832	4,030	5,393	4,880	5,603
Current portion of long-term debt	1,152	1,152	1,152	2,700	2,700	2,700
Total current liabilities	7,287	7,669	8,867	18,691	12,283	13,540
Long-term debt	16,231	15,079	13,927	26,625	36,625	34,625
Deferred income taxes	18,801	19,432	19,449	17,943	17,943	17,943
Total liabilities	42,319	42,180	42,243	63,259	66,851	66,108
Total stockholders' equity*	72,649	77,178	84,849	100,861	101,108	106,801
Total liabilities & stockholders' equity	114,968	119,358	127,092	164,120	167,959	172,910

* Our FY14 estimate includes the issuance of $16 million in common stock (686,083 shares) for Fabrica.
Source: Company filings and Taglich Brothers' estimates

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

	2011A	2012A	2013A	2014E	2015E
Net sales	97,843	100,819	116,374	140,919	161,800
Cost of sales	81,886	78,253	88,494	112,936	125,774
Gross profit	15,957	22,566	27,880	27,983	36,026
Intangibles amortization				752	1,288
SG&A expenses	6,810	8,456	9,471	11,527	9,600
Operating income (loss)	9,147	14,110	18,409	15,704	25,138
Interest expense	647	407	371	305	360
Other (income) expense	(42)	302	(173)	491	-
Income (loss) before taxes	8,542	13,401	18,211	14,908	24,778
Income tax expense (benefit)	2,344	4,144	4,892	4,813	7,929
Net income (loss)	6,198	9,257	13,319	10,095	16,849
EPS	0.80	1.18	1.67	1.18	1.91
Shares Outstanding	7,722	7,832	7,937	8,538	8,830
Margin Analysis					
Gross margin	16.3%	22.4%	24.0%	19.9%	22.3%
SG&A expenses	7.0%	8.4%	8.1%	8.2%	5.9%
Operating margin	9.3%	14.0%	15.8%	11.1%	15.5%
Net margin	6.3%	9.2%	11.4%	7.2%	10.4%
Tax rate	27.4%	30.9%	26.9%	32.3%	32.0%
Year / Year Growth					
Total Revenues	5.8%	3.0%	15.4%	21.1%	14.8%
Net Income	4.8%	49.4%	43.9%	(24.2%)	66.9%
EPS	5.3%	47.3%	41.3%	(29.2%)	61.4%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2013, 2014, and 2015
(in thousands $)

	3/13A	6/13A	9/13A	12/13A	2013A	3/14A	6/14A	9/14A	12/14E	2014E	3/15E	6/15E	9/15E	12/15E	2015E
Net sales	26,609	29,232	29,760	30,773	116,374	27,759	29,196	44,429	39,535	140,919	37,400	39,400	45,000	40,000	161,800
Cost of sales	20,082	22,236	22,620	23,556	88,494	21,741	23,706	35,645	31,844	112,936	30,100	30,310	34,617	30,747	125,774
Gross profit	6,527	6,996	7,140	7,217	27,880	6,018	5,490	8,784	7,691	27,983	7,300	9,090	10,383	9,253	36,026
Intangibles amortization							108	322	322	752	322	322	322	322	1,288
SG&A expenses	2,273	2,517	2,122	2,559	9,471	2,179	4,407	2,541	2,400	11,527	2,400	2,400	2,400	2,400	9,600
Operating income (loss)	4,254	4,479	5,018	4,658	18,409	3,839	975	5,921	4,969	15,704	4,578	6,368	7,661	6,531	25,138
Interest expense	93	95	92	91	371	13	112	90	90	305	90	90	90	90	360
Other (income) expense	(5)	(7)	(9)	(152)	(173)	1	(7)	147	350	491	-	-	-	-	-
Income (loss) before taxes	4,166	4,391	4,935	4,719	18,211	3,825	870	5,684	4,529	14,908	4,488	6,278	7,571	6,441	24,778
Income tax expense (benefit)	1,073	1,248	1,212	1,359	4,892	1,182	324	1,854	1,453	4,813	1,436	2,009	2,423	2,061	7,929
Net income (loss)	3,093	3,143	3,723	3,360	13,319	2,643	546	3,830	3,076	10,095	3,052	4,269	5,148	4,380	16,849
EPS	0.39	0.39	0.47	0.42	1.67	0.32	0.07	0.44	0.35	1.18	0.35	0.48	0.58	0.50	1.91
Shares Outstanding	7,895	7,984	8,074	8,121	7,937	8,153	8,346	8,824	8,830	8,538	8,830	8,830	8,830	8,830	8,830
Margin Analysis															
Gross margin	24.5%	23.9%	24.0%	23.5%	24.0%	21.7%	18.8%	19.8%	19.5%	19.9%	19.5%	23.1%	23.1%	23.1%	22.3%
SG&A expenses	8.5%	8.6%	7.1%	8.3%	8.1%	7.8%	15.1%	5.7%	6.1%	8.2%	6.4%	6.1%	5.3%	6.0%	5.9%
Operating margin	16.0%	15.3%	16.9%	15.1%	15.8%	13.8%	3.3%	13.3%	12.6%	11.1%	12.2%	16.2%	17.0%	16.3%	15.5%
Net margin	11.6%	10.8%	12.5%	10.9%	11.4%	9.5%	1.9%	8.6%	7.8%	7.2%	8.2%	10.8%	11.4%	10.9%	10.4%
Tax rate	25.8%	28.4%	24.6%	28.8%	26.9%	30.9%	37.2%	32.6%	32.0%	32.3%	32.0%	32.0%	32.0%	32.0%	32.0%
Year / Year Growth															
Total Revenues	3.4%	15.6%	15.4%	28.0%	15.4%	4.3%	(0.1%)	49.3%	28.5%	21.1%	34.7%	34.9%	1.3%	1.2%	14.8%
Net Income	22.6%	40.5%	60.1%	54.6%	43.9%	(14.5%)	(82.6%)	2.9%	(8.5%)	(24.2%)	15.5%	NMF	34.4%	42.4%	66.9%
EPS	22.0%	38.0%	62.1%	52.7%	41.3%	(17.3%)	(83.4%)	(6.4%)	(17.1%)	(29.2%)	6.6%	NMF	32.5%	42.4%	61.4%

Source: Company filings and Taglich Brothers' estimates

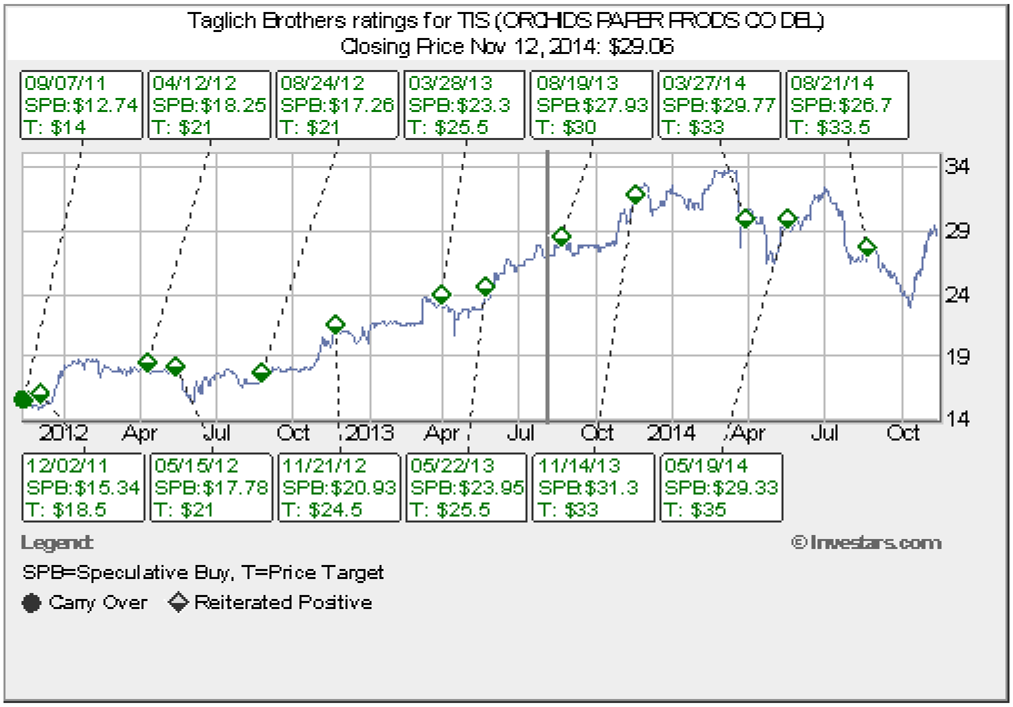
Orchids Paper Products Company

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

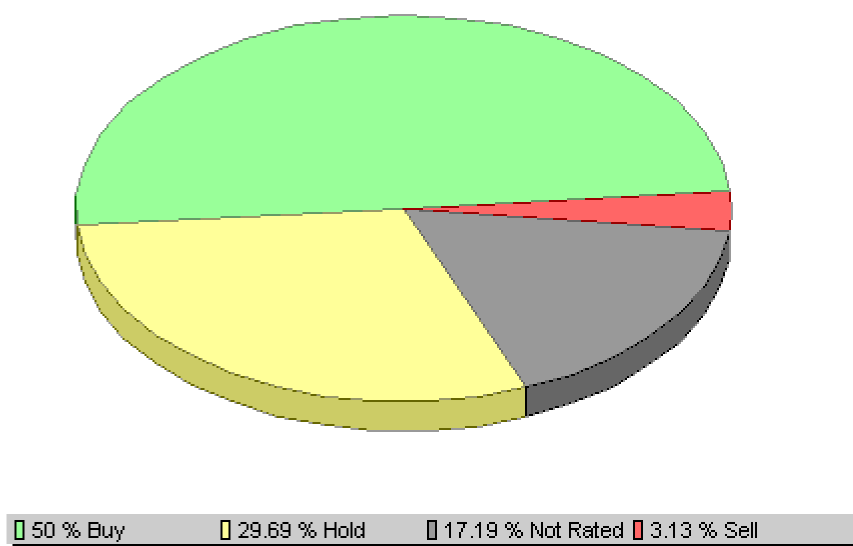
	2011A	2012A	2013A	9mos14A	2014E	2015E
Net income(loss)	6,198	9,257	13,319	7,019	10,095	16,849
Depreciation and amortization	7,132	7,548	7,621	7,286	10,303	10,454
Provision for doubful accounts	(30)	(20)	10	1	1	1
Deferred income taxes	2,359	648	(142)	(1,498)	(1,506)	-
Stock based compensation	290	346	346	1,609	1,865	1,065
Loss on disposal of property, plant and equipment	-	336	(146)	8	8	-
Cash earnings	15,949	18,115	21,008	14,425	20,766	28,369
Changes in assets and liabilities						
Accounts receivable	(754)	1,553	(1,189)	(4,727)	(1,389)	(1,182)
Inventories	(216)	(2,464)	(646)	777	(3,016)	(1,584)
Prepaid expenses	8	(107)	(226)	(300)	(300)	-
Income taxes receivable	2,390	(322)	607	-	883	1,267
Other current assets	(338)	294	44	(2,579)	(2,579)	-
Accounts payable	(1,730)	165	-	6,913	1,018	535
Acrrued liabilities	346	217	1,198	1,362	850	723
(Increase) decrease in working capital	(294)	(664)	(212)	1,446	(4,533)	(241)
Net Cash Provided by (Used in) Operations	15,655	17,451	20,796	15,871	16,233	28,128
Acquisition of Fabrica's US business	-	-	-	(16,700)	(16,700)	
Proceeds from the sale of investment securities	7,500	-	(8)	5,037	5,037	-
Purchase of investment securities	-	(3,008)	-	(2)	(2)	-
Purchase of property and equipment	(5,531)	(6,780)	(12,171)	(13,346)	(23,000)	(12,000)
Net Cash Provided by (Used in) Investing	1,969	(9,788)	(12,179)	(25,011)	(34,665)	(12,000)
Borrowings on long-term debt	18,021	-	-	30,000	30,000	-
Principal payments on long-term debt	(2,007)	(1,152)	(1,152)	(15,754)	(15,754)	(2,000)
Repayment of long-term debt at maturity	(5,878)	-	-	-	-	-
Repayment of long-term debt prior to maturity	(17,439)	-	-	-	-	-
Net borrowings (repayments) on revolving credit line	(2,672)	-	-	-	10,000	-
Proceeds from the exercise of stock options	303	974	3,305	79	79	79
Excess tax benefit of stock options exercised	15	395	1,409	20	20	20
Deferred debt issuance cost	(59)	-	-	(203)	(203)	-
Dividends paid	(3,753)	(6,443)	(10,708)	(8,716)	(11,780)	(12,300)
Net Cash Provided by (Used in) Financing	(13,469)	(6,226)	(7,146)	5,426	12,362	(14,201)
Net Change in Cash	4,155	1,437	1,471	(3,714)	(6,070)	1,927
Cash - Beginning of Period	142	4,297	5,734	7,205	7,205	1,135
Cash - End of Period	4,297	5,734	7,205	3,491	1,135	3,061
Cash Flow from Operations	15,655	17,451	20,796	15,871	16,233	28,128
Capital Expenditures	(5,531)	(6,780)	(12,171)	(13,346)	(23,000)	(12,000)
Free Cash Flow	10,124	10,671	8,625	2,525	(6,767)	16,128

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	8
Hold	1	20
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 121,473 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 72,900 shares of TIS common stock, 5,000 stock options (right to buy) and 33,477 shares of restricted 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)
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.