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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 23, 2016

TIS $25.24 — (NYSE MKT)

	2014A	2015A	2016E	2017E
Revenues (millions)	$142.7	$168.4	$169.1	$189.3
Earnings per share	$1.11	$1.38	$1.25	$1.69

52-Week range	$36.31 – $23.14	Fiscal year ends:	December
Shares outstanding as/of 10/28/16	10.3 million	Revenue per share (TTM)	$16.28
Approximate float	9.1 million	Price/Sales (TTM)	1.6X
Market capitalization	$260 million	Price/Sales (FY2017)E	1.4X
Tangible book value/share	$10.87	Price/Earnings (TTM)	18.8X
Price/tangible book value	2.3X	Price/Earnings (FY2017)E	14.9X
Annual dividend	$1.40	Dividend Yield	5.5%

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 $28.00 from $32.00 previously due to decreased 2017 earnings projections that reflect continuing competitive pressures from branded product manufacturers.

The company's five-year growth potential remains significant due to geographic expansion, the 2014 acquisition, and plant upgrades.

Total converted tonnage (from Oklahoma, Fabrica and South Carolina) should increase to 85,400 tons in 2016, up from 82,972 tons in 2015 as production from South Carolina ramps. With a full year of production from the new converting lines in South Carolina, we project Orchids will sell total converted tonnage of 93,000 tons in 2017.

We project 2016 revenue of $169.1 million and EPS of $1.25 per share. The change in our projections (previously $181.7 million revenue and $1.38 EPS) reflects 3Q16 results and continuing competitive pressures from branded product manufacturers promoting their products through price reductions.

We project 2017 revenue of $189.3 million and EPS of $1.69 per share. The change in our projections (previously $200.3 million revenue and $1.88 EPS) primarily reflects continuing competitive pressure.

Orchids reported (10Q released 11/3/16) 3Q16 revenue of $39.6 million and EPS of $0.21, down significantly compared to 3Q15 due to continuing competitive pressures. We projected 3Q16 revenue of $45.6 million and EPS of $0.29. In the year earlier quarter, Orchids generated revenue of $46.8 million and EPS of $0.45. 3Q16 revenue was adversely impacted by increased promotional activity on branded products that affected sales of private label products such as Orchids'.

Please view our disclosures on pages 13 - 15.

Recommendation and Valuation

Reiterating Speculative Buy rating. Lowering 12-month price target to $28.00 from $32.00 previously due to decreased 2017 earnings projections that reflect continuing competitive pressures from branded product manufacturers.

Shares of Orchids currently trade at a TTM EPS multiple of 19X, down from its average of 20X over the past twelve months, a decline which we believe reflects competitive pressure. In light of TIS's continued diminished valuation, we are maintaining a forward multiple to 17X earnings. Applying a multiple of 17X to our 2017 EPS estimate, discounted to account for execution risk, gives us a year-ahead value of approximately $28.00 per share.

Recent Development

In September 2016, Orchids announced that effective September 12, 2016, Rodney D. Gloss will join the company as chief financial officer. Between 2011 and 2016, Gloss served as vice president and CFO of Atna Resources Ltd., a public gold mining company. From 2010 and 2011, Gloss served as corporate controller of Alacer Gold Corporation, a public international gold mining and exploration company. Prior, served in senior financial positions with Intrepid Potash, Inc. and Timminco Ltd. MBA from UCLA. CPA.

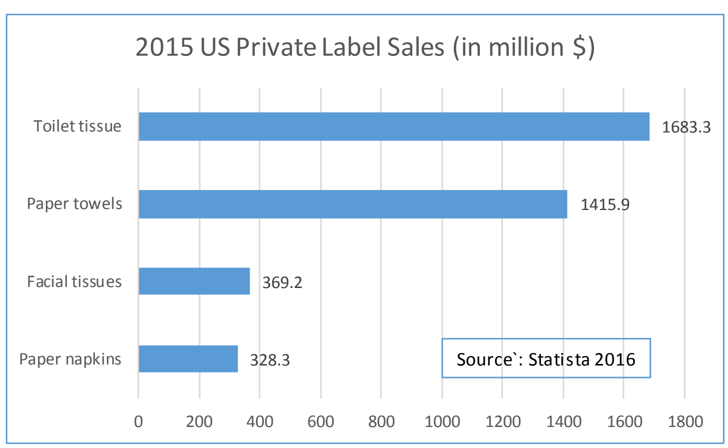
Business

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, 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.

Private Label Market and Outlook

In October 2016, the Private Label Manufacturers Association (PLMA) website provided market data which showed that private label brands had reached approximately $118.4 billion in US sales in 2015, an increase of 2% over 2014 which was equal to the growth rate of national brands. The PLMA said that while the number of consumers cutting back on spending has stabilized, Americans were still pinching pennies. One-third of consumers no longer prefer the more expensive brand, having realized that the store brand offers better value for the money and is of higher-than-expected quality.

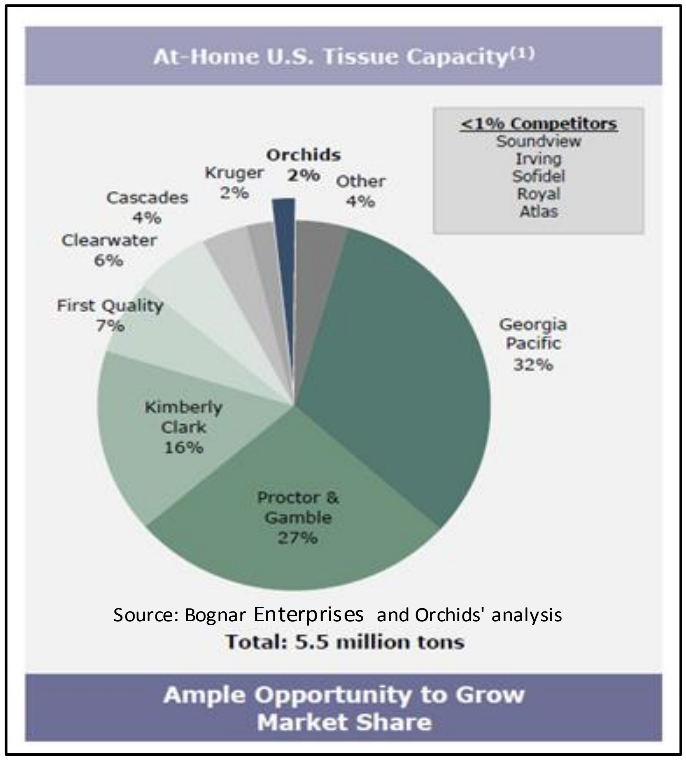


In January 2016 (most recent update), the statistics website Statista.com reported that US sales of private label paper products were approximately $3.8 billion in 2015. Toilet tissue accounted for the greatest percentage of sales at 44%, followed by paper towels at 37%, facial tissue at 10%, and paper napkins at 9% (see chart at right).

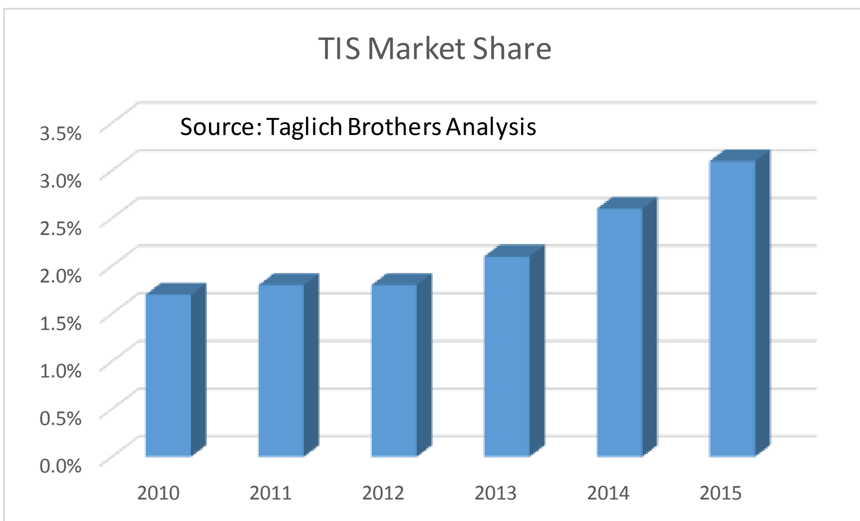
Market and Competition

In May 2016, IBISWorld estimated the 2015 US sanitary paper product market at $12 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $5.5 billion. The overall industry is projected to grow at an average annual growth rate of 1.3% to $13 billion by 2022.

Dollar and variety stores, Orchids' primary target markets, realized sales of $69.8 billion in 2015. In August 2016, IBISWorld projected dollar and variety stores' average revenue growth to grow 2.9% annually to $83.9 billion by 2022 as stores increase their market penetration by stocking national brands and improving the in-store shopping experience.



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 six 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, and 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. Gross margins fell further to 18% in 2015 due primarily to continued parent roll purchases in the open market in 1Q15 and an incident at one of the company's main converting lines which was out of commission for most of approximately eight weeks in 4Q15.



Although Orchids' competition has increased throughout the years, the company has managed to increase its market share by offering higher grade products (discussed in Strategy Section on page 4), 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 1.7% in 2010 to 3.1% in 2015 (see chart at right).

Clearwater Paper and Cascades are the only publicly held direct competitors. Revenue and gross margins for Orchids and its competitors over the trailing twelve months 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
TTM Revenue (9/16)	$1.78B	$3.0B	$168.7M
TTM Gross Margin	13.8%	14.4%	18.1%

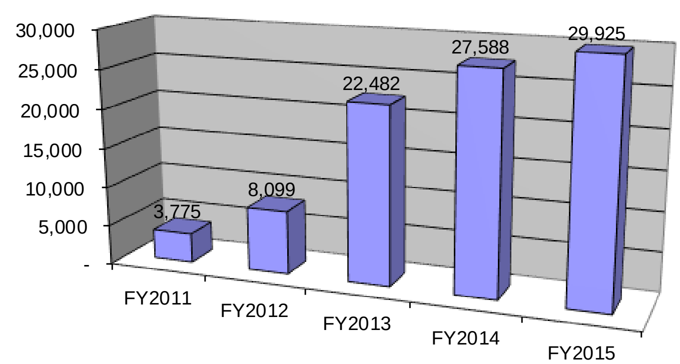
Strategy

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 of between 30,000 and 32,000 tons per year. The first converting line was operational in 1Q16 and the second converting line was operational in 3Q16. The paper machine is expected to be operational in 1Q17.

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).

Higher Tier Product Shipments
(in tonnage shipped)



Source: Company filings

3Q and Nine-Months 2016 Financial Results

<u>*3Q16*</u> - Sales of $39.6 million were down 15% from the comparable period in 2015. Net income was $2.2 million or $0.21 per share versus net income of $4.7 million or $0.45 per share. We projected 3Q16 sales of $45.6 million and net income of $3 million or $0.29 per share.

Converted product (paper towels, bathroom tissue, and paper napkins) sales decreased 12% to $38.3 million while parent roll (bulk tissue paper) sales were $1.3 million versus $3.2 million in 3Q15. The decrease in converted product sales was primarily due to a 12% decrease in tonnage shipped (net selling price per ton was essentially flat). The decrease in converted tonnage shipped was primarily the result of increased competitive pressure from branded product manufacturers promoting their products through price reductions. The decrease in parent roll sales was primarily due to the shipment of excess parent rolls from the Oklahoma plant to support the startup and inventory build of the new plant in South Carolina.

Gross margins decreased to 15.7% from 21% primarily due to increased depreciation and low manufacturing coverage associated with the Barnwell facility. With the increase in sales we project, increased overhead coverage should result in gross margin improvement. However, with continuing competitive pricing pressure, gross margin improvement should be limited in 4Q16.

Selling, general and administrative (SG&A) expenses increased to $2.6 million from $2.4 million due primarily to the hiring of sales personnel. The company recognized $233,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income decreased to $3.4 million or 8.6% of sales from $7 million or 15% of sales.

Nine-Months 2016 - Sales of $126.8 million were essentially flat with the comparable period in 2015. Net income was $10.2 million or $0.98 per share versus net income of $9.9 million or $1.02 per share.

	9m16A	9m15A	% change
	(in thousands $)		
Net sales	126,785	126,542	0.2%
Cost of sales	102,316	104,192	(1.8%)
Gross profit	24,469	22,350	9.5%
Intangibles amortization	986	1,130	(12.7%)
SG&A expenses	7,783	7,174	8.5%
Operating income (loss)	15,700	14,046	11.8%
Interest expense	1,187	289	310.7%
Other (income) expense	(527)	(507)	NMF
Income (loss) before taxes	15,040	14,264	5.4%
Income tax expense (benefit)	4,850	4,408	10.0%
Net income (loss)	10,190	9,856	3.4%
Diluted EPS	0.98	1.02	(3.4%)
Diluted Shares Outstanding	10,351	9,673	
Margin Analysis			
Gross margin	19.3%	17.7%	
SG&A expenses	6.1%	5.7%	
Operating margin	12.4%	11.1%	
Net margin	8.0%	7.8%	

Source: Company filings

Converted product (paper towels, bathroom tissue, and paper napkins) sales increased 2% to $122.9 million while parent roll (bulk tissue paper) sales decreased 31% to $3.9 million. The increase in converted product sales was primarily due to a 3% increase in tonnage shipped. The decrease in parent roll sales was primarily due to the shipment of excess parent rolls from the Oklahoma plant to support the startup and inventory build of the new plant in South Carolina.

Gross margins increased to 19.3% from 17.7% primarily due to lower raw material (fiber) costs and the favorable impact of $1.1 million of business interruption proceeds received as a result of an incident that occurred in the Oklahoma converting facility in 4Q15. Excluding the $1.1 million one-time favorable impact, gross profit would have been $23.4 million for an 18.4% gross margin, and net income would have been $9.4 million or $0.90 per share. With the increase in sales we project, increased overhead coverage should result in gross margin improvement. However, without any further proceeds expected from Orchids' 4Q15 business interruption, and continuing competitive pricing pressure, gross margin improvement should be limited. We project gross margins to be lower in 2H16 as compared to 1H16. We project gross margins increasing in 2017 as converted product sales increase and the higher cost of purchasing parent rolls in the secondary market will have been eliminated. 1H17 gross margins are projected to be lower than 2H17 as the company's new paper machine is expected to start producing in 1Q17 and ramp up production in 2Q17.

Selling, general and administrative (SG&A) expenses increased to $7.8 million from $7.2 million as professional fees increased. The company recognized $986,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. Operating income increased to $15.7 million or 12.4% of sales from $14 million or 11.1% of sales.

Liquidity - Based on our forecasts, Orchids should need to raise approximately $40 million in additional debt over the next year in order to meet its financial obligations through 2017. We project increased interest payments through 2017. As of September 30, 2016, Orchids had cash of $8.6 million, a current ratio of 2.3X versus 0.9X for the paper products industry, and a debt/equity ratio of 0.9X versus 0.4X for the industry. Orchids' total debt has more than tripled over the past year and a half to over $130 million in 3Q16 from approximately $36 million at the end of 2014. The increase in debt was to fund the expansion into South Carolina and capital expenditures (details provided below).

Cash from operations of $20.3 million in the first nine months of 2016 was primarily due to $27.3 million cash earnings offset in part by a $6.9 million increase in inventories. Cash from operations, a $55.9 million net increase in debt, a $10.7 million decrease in restricted cash, and $1.9 million proceeds from economic incentives related to the construction of the South Carolina facility, were partially offset by capital expenditures of $74.1 million and $10.8 million in dividend payments, resulting primarily in a $4.2 million increase in cash to $8.6 million as of September 30, 2016.

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. In December 2015, the maximum borrowing capacity under the delayed term loan was reduced from $115 million to $99.6 million. 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.

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.

The credit agreement contains covenants that require Orchids to maintain specific fixed charge coverage and leverage ratios. As of September 30, 2016, the company was in compliance with those covenants.

Projections

Orchids' option to purchase an additional 7,700 tons annually from Fabrica ended in 2H16. Helping to offset this reduction in tonnage should be the contribution from Orchids' new plant in South Carolina. However, continuing competitive pressures from branded product manufacturers promoting their products through price reductions has caused us to lower our 2016 converted product projection to 85,400 tons from 91,200 tons previously. We increased our parent roll shipments to 5,900 from 2,900 to primarily reflect 3Q16 results.

With a full year of production from the two converting lines in South Carolina, we project Orchids will sell total converted tonnage of 93,000 tons in 2017, down from 97,100 tons previously due to continuing competition.

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

Revenue Model

	Tons Shipped	Selling Price/Ton	Revenue ($,000)
2014			
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	82,972	$ 1,941	$ 161,052
Parent Roll	7,436	$ 994	$ 7,394
Total	90,408	$ 1,863	$ 168,446
2016	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	85,400	$ 1,919	$ 163,883
Parent Roll	5,900	$ 892	$ 5,263
Total	91,300	$ 1,853	$ 169,145
2017	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	93,000	$ 1,938	$ 180,234
Parent Roll	10,000	$ 901	$ 9,010
Total	103,000	$ 1,837	$ 189,244

Source: Company filings and Taglich Brothers estimates

With the new paper machine expected to be operational in 1Q17, and a significant ramp expected for 2Q17, we increased our 2017 parent roll projection to 10,000 tons from 8,500 tons.

We project 2016 selling prices of $1,919/ton for converted products and $892/ton for parent rolls, flat with year-to-date selling prices. For 2017, we project selling prices of $1,938/ton for converted products and $901/ton for parent rolls, consistent with the 1% increase in 2017 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.

	2012A	2013A	2014A	2015A	2016E	2017E
Conv. Tons	43,661	52,592	67,870	82,972	85,400	93,000
Total Tons	53,995	59,318	72,792	90,408	91,300	103,000
Conv. Ton %	80.9%	88.7%	93.2%	91.8%	93.5%	90.3%
Gross Margin	22.4%	24.0%	18.7%	18.1%	18.6%	21.2%

Source: Company filings and Taglich Brothers estimates

Orchids currently ships 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 shipping excess parent rolls from Oklahoma to South Carolina, thereby foregoing profits that would have been received on parent roll sales which should constrain gross margins (see table above right). Excluding the favorable impact on gross margins from the 2Q16 $1.1 million of business interruption proceeds, we project 2016 gross margins of 17.9%. We project 2H16 gross margins to be lower than 1H16 due to the absence of proceeds from the 4Q15 business interruption and continuing competitive pricing pressure. We project gross margins increasing in 2017 as converted product sales increase and the higher cost of purchasing parent rolls in the secondary market (as seen in 2014, 2015, and 2016 margins) will have been eliminated. 1H17 gross margins are projected to be lower than 2H17 as the company's new paper machine is expected to start producing in 1Q17 and ramp up production in 2Q17.

<u>2016</u> - We project revenue of $169.1 million and net income of $12.9 million or $1.25 per share. The change in our projections (previously $181.7 million revenue and $14.3 million or $1.38 per share net income) reflects 3Q16 results and continuing competitive pressure from branded product manufacturers promoting their products through price reductions.

Excluding the $1.1 million one-time favorable impact of proceeds from Orchids' 4Q15 business interruption, gross profit in 1H16 would have been $17.2 million for a 19.7% gross margin. With the increase in sales we project, increased overhead coverage should result in gross margin improvement. However, without any further proceeds expected from Orchids' 4Q15 business interruption, and continuing competitive pricing pressure, gross margin improvement should be limited. We project gross margins to be lower in 2H16 (16.1%) as compared to 1H16 (19.7%), for a full year gross margin of 18.6%.

We project SG&A expenses of $10.4 million in 2016 (of which approximately 1% or $1.6 million of sales are commission-related). Operating margins are projected to increase to 11.8% from 11.5% due primarily to gross margin improvement stemming from a full year of production from the more efficient paper machine and new converting line in Oklahoma. Interest expense is projected to increase to $1.5 million from $521,000 due to higher debt levels. Much of the interest associated with the added debt for the company's South Carolina project will be capitalized. Interest expense in 3Q16 was higher than 1H16 levels due to a lesser amount of interest being capitalized. Higher interest capitalization levels are expected for 4Q16 and 1Q17 and should end by 2Q17. The tax rate is estimated at 32.2%.

For 2016 we project Orchids will generate $32.8 million cash from operations primarily from cash earnings. Cash from operations will not cover our projected $94 million in capital expenditures (primarily for South Carolina facility) and $14.4 million in dividend payments requiring the company to raise approximately $60 million from increased debt. We project a $1.7 million decrease in cash to $2.7 million at December 31, 2016.

<u>2017</u> - We project revenue of $189.3 million and net income of $17.5 million or $1.69 per share. The change in our projections (previously $200.3 million revenue and $19.5 million or $1.88 per share net income) primarily reflects continuing competitive pressure.

We project gross margins increasing to 21.2% in 2017 as converted product sales increase and the higher cost of purchasing parent rolls in the secondary market will have been eliminated. 1H17 gross margins are projected to be lower than 2H17 as the company's new paper machine is expected to start producing in 1Q17 and ramp up production in 2Q17.

We project SG&A expenses of $10.8 million in 2017 (of which approximately 1% or $1.9 million of sales are commission-related). Operating margins are projected to increase to 15% from 11.8% due primarily to gross profit gains of approximately $8.6 million. Interest expense is projected to increase to $3.3 million from $1.5 million due to higher debt levels and the capitalization of interest ending in 2H17. The tax rate is estimated at 32.3%.

For 2017 we project Orchids will generate $31.3 million cash from operations primarily from cash earnings. Cash from operations will not cover our projected $52 million in capital expenditures (primarily for South Carolina facility) and $14.4 million in dividend payments requiring a $35 million increase in debt. We project a $262,000 increase in cash to $2.9 million at December 31, 2017.

Risks

Customer concentration

Three customers (Dollar General, Family Dollar and HEB) accounted for approximately 61% of total sales in 2015. 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 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 1Q17. Total cost is estimated at $150 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 9.1 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.

Consolidated Balance Sheets
(in thousands $)

	2013A	2014A	2015A	3Q16A	2016E	2017E
Cash	7,205	1,021	4,361	8,561	2,664	2,926
Accounts receivable	6,585	10,195	11,834	13,375	11,882	13,296
Inventories	10,921	9,650	13,501	20,449	13,475	14,590
Short term investments	5,035	-	-	-	-	-
Income taxes receivable	-	634	5,628	3,000	3,000	3,000
Prepaid expenses	863	1,285	1,136	3,889	3,889	3,889
Other	146	899	1,853	372	372	372
Deferred income taxes	552	614	1,300	-	-	-
Total current assets	31,307	24,298	39,613	49,646	35,282	38,073
Property, plant and equipment	95,745	119,720	173,378	238,421	257,418	296,370
Restricted cash	-	-	12,005	1,335	1,335	1,335
VAT receivable	-	1,734	1,751	1,742	1,742	1,742
Intangible assets	-	17,237	15,730	14,744	14,530	13,630
Goodwill	-	7,560	7,560	7,560	7,560	7,560
Deferred debt issuance costs	40	190	1,342	-	-	-
Total Assets	127,092	170,739	251,379	313,448	317,867	358,710
Bank overdrafts	-	1,706	-	-	-	-
Accounts payable	3,685	11,391	11,098	14,415	11,076	11,993
Accrued liabilities	4,030	3,747	3,880	2,155	3,896	4,359
Current portion of long-term debt	1,152	2,700	3,882	5,462	5,462	5,462
Total current liabilities	8,867	19,544	18,860	22,032	20,434	21,814
Long-term debt	13,927	33,662	71,699	124,737	129,737	164,737
Other	-	-	5,098	5,152	5,152	5,152
Deferred income taxes	19,449	17,020	21,939	27,263	28,740	28,740
Total liabilities	42,243	70,226	117,596	179,184	184,063	220,443
Total stockholders' equity	84,849	100,513	133,783	134,264	133,804	138,266
Total liabilities & stockholders' equity	127,092	170,739	251,379	313,448	317,867	358,710

Source: Company filings and Taglich Brothers' estimates

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

	2013A	2014A	2015A	2016E	2017E
Net sales	116,374	142,724	168,446	169,135	189,250
Cost of sales	88,494	115,985	137,949	137,678	149,074
Gross profit	27,880	26,739	30,497	31,457	40,176
Intangibles amortization		753	1,507	1,219	932
SG&A expenses	9,471	11,675	9,540	10,358	10,800
Operating income (loss)	18,409	14,311	19,450	19,880	28,444
Interest expense	371	271	521	1,512	3,319
Other (income) expense	(173)	181	(683)	(702)	(700)
Income (loss) before taxes	18,211	13,859	19,612	19,070	25,825
Income tax expense (benefit)	4,892	4,394	6,055	6,150	8,329
Net income (loss)	13,319	9,465	13,557	12,920	17,496
EPS	1.67	1.11	1.38	1.25	1.69
Shares Outstanding	7,937	8,539	9,844	10,365	10,375
Margin Analysis					
Gross margin	24.0%	18.7%	18.1%	18.6%	21.2%
SG&A expenses	8.1%	8.2%	5.7%	6.1%	5.7%
Operating margin	15.8%	10.0%	11.5%	11.8%	15.0%
Net margin	11.4%	6.6%	8.0%	7.6%	9.2%
Tax rate	26.9%	31.7%	30.9%	32.2%	32.3%
Year / Year Growth					
Total Revenues	15.4%	22.6%	18.0%	0.4%	11.9%
Net Income	43.9%	(28.9%)	43.2%	(4.7%)	35.4%
EPS	41.3%	(33.6%)	24.2%	(9.5%)	35.3%

Source: Company filings and Taglich Brothers' estimates

Quarterly Income Statement for the Fiscal Years Ending December 31, 2015, 2016, and 2017
(in thousands $)

	3/15A	6/15A	9/15A	12/15A	2015A	3/16A	6/16A	9/16A	12/16E	2016E	3/17E	6/17E	9/17E	12/17E	2017E
Net sales	37,415	42,295	46,832	41,904	168,446	47,743	39,414	39,628	42,350	169,135	45,400	47,400	49,200	47,250	189,250
Cost of sales	32,629	34,576	36,987	33,757	137,949	36,362	32,541	33,413	35,362	137,678	37,664	37,901	37,618	35,891	149,074
Gross profit	4,786	7,719	9,845	8,147	30,497	11,381	6,873	6,215	6,988	31,457	7,736	9,499	11,582	11,359	40,176
Intangibles amortization	377	377	376	377	1,507	377	376	233	233	1,219	233	233	233	233	932
SG&A expenses	2,497	2,240	2,437	2,366	9,540	2,722	2,504	2,557	2,575	10,358	2,600	2,700	2,800	2,700	10,800
Operating income (loss)	1,912	5,102	7,032	5,404	19,450	8,282	3,993	3,425	4,180	19,880	4,903	6,566	8,549	8,426	28,444
Interest expense	214	64	11	232	521	263	285	639	325	1,512	448	825	1,023	1,023	3,319
Other (income) expense	(186)	(152)	(169)	(176)	(683)	(201)	(164)	(162)	(175)	(702)	(175)	(175)	(175)	(175)	(700)
Income (loss) before taxes	1,884	5,190	7,190	5,348	19,612	8,220	3,872	2,948	4,030	19,070	4,631	5,916	7,701	7,578	25,825
Income tax expense (benefit)	648	1,312	2,448	1,647	6,055	2,811	1,304	735	1,300	6,150	1,493	1,908	2,483	2,444	8,329
Net income (loss)	1,236	3,878	4,742	3,701	13,557	5,409	2,568	2,213	2,730	12,920	3,137	4,008	5,217	5,134	17,496
EPS	0.14	0.39	0.45	0.36	1.38	0.52	0.25	0.21	0.26	1.25	0.30	0.39	0.50	0.49	1.69
Shares Outstanding	8,824	9,853	10,425	10,349	9,844	10,343	10,375	10,368	10,375	10,365	10,375	10,375	10,375	10,375	10,375
Margin Analysis															
Gross margin	12.8%	18.3%	21.0%	19.4%	18.1%	23.8%	17.4%	15.7%	16.5%	18.6%	17.0%	20.0%	23.5%	24.0%	21.2%
SG&A expenses	6.7%	5.3%	5.2%	5.6%	5.7%	5.7%	6.4%	6.5%	6.1%	6.1%	5.7%	5.7%	5.7%	5.7%	5.7%
Operating margin	5.1%	12.1%	15.0%	12.9%	11.5%	17.3%	10.1%	8.6%	9.9%	11.8%	10.8%	13.9%	17.4%	17.8%	15.0%
Net margin	3.3%	9.2%	10.1%	8.8%	8.0%	11.3%	6.5%	5.6%	6.4%	7.6%	6.9%	8.5%	10.6%	10.9%	9.2%
Tax rate	34.4%	25.3%	34.0%	30.8%	30.9%	34.2%	33.7%	24.9%	32.3%	32.2%	32.3%	32.3%	32.3%	32.3%	32.3%
Year / Year Growth															
Total Revenues	34.8%	44.9%	5.4%	1.4%	18.0%	27.6%	(6.8%)	(15.4%)	1.1%	0.4%	(4.9%)	20.3%	24.2%	11.6%	11.9%
Net Income	(53.2%)	NMF	23.8%	51.3%	43.2%	337.6%	(33.8%)	(53.3%)	(26.2%)	(4.7%)	(42.0%)	56.1%	135.8%	88.0%	35.4%
EPS	(56.8%)	NMF	3.4%	29.0%	24.2%	273.4%	(37.1%)	(53.1%)	(26.4%)	(9.5%)	(42.2%)	56.1%	135.6%	88.0%	35.3%

Source: Company filings and Taglich Brothers' estimates

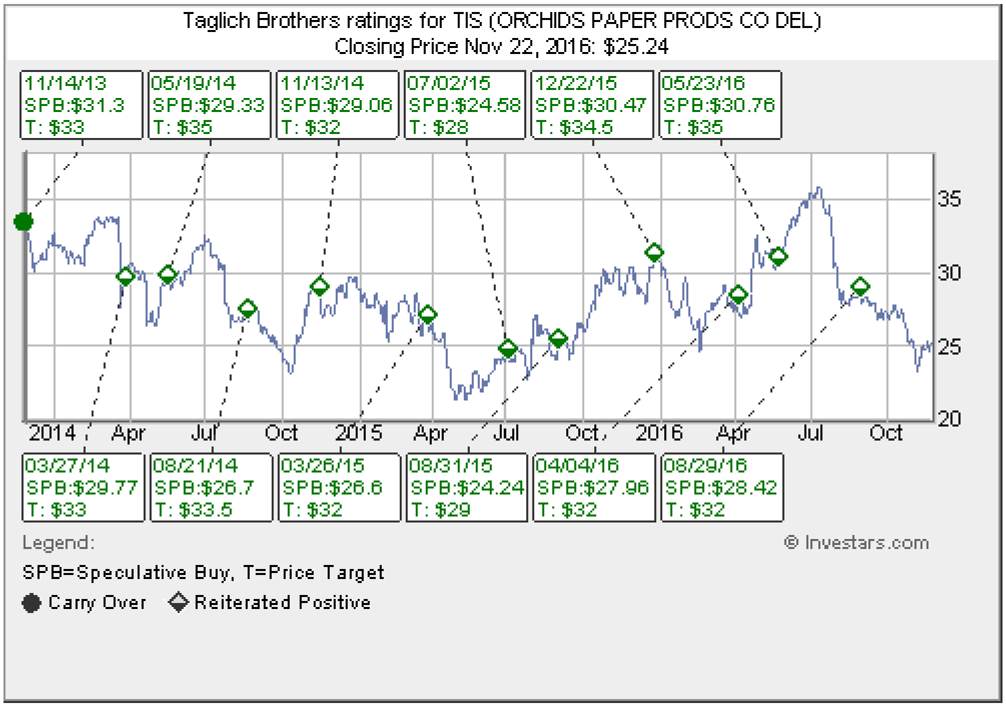
Orchids Paper Products Company

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

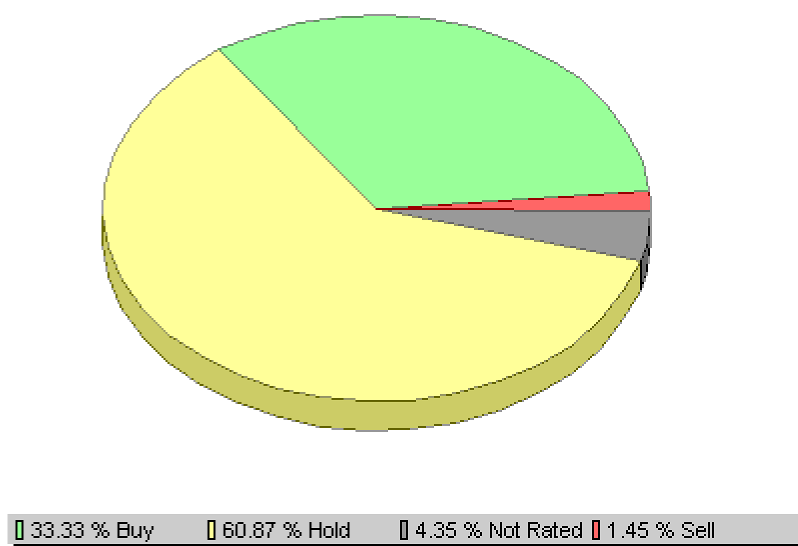
	2013A	2014A	2015A	9m16A	2016E	2017E
Net income(loss)	13,319	9,465	13,557	10,190	12,920	17,496
Depreciation and amortization	7,621	9,749	11,420	9,865	12,456	13,948
Provision for doubful accounts	10	20	-	-	-	-
Deferred income taxes	(142)	(2,491)	4,235	6,624	6,624	-
Stock based compensation	346	1,879	1,048	604	1,000	1,000
(Gain) loss on disposal of property, plant and equipment	(146)	8	-	(18)	(18)	-
Cash earnings	21,008	18,630	30,260	27,265	32,982	32,444
Changes in assets and liabilities						
Accounts receivable	(1,189)	(2,556)	(1,640)	(1,541)	(48)	(1,413)
Inventories	(646)	1,272	(3,852)	(6,948)	26	(1,115)
Prepaid expenses	(226)	(422)	149	(2,753)	(2,753)	-
Income taxes receivable	607	(634)	(4,994)	2,628	2,628	-
Other current assets	44	(3,560)	(972)	1,490	1,481	-
Accounts payable	-	7,706	(293)	1,843	(1,498)	917
Acrrued liabilities	1,198	(284)	133	(1,725)	16	463
(Increase) decrease in working capital	(212)	1,522	(11,469)	(7,006)	(148)	(1,148)
Net Cash Provided by (Used in) Operations	20,796	20,152	18,791	20,259	32,834	31,296
Acquisition of Fabrica's US business	-	(16,700)	-	-	-	-
Proceeds from the sale of investment securities	(8)	5,037	-	-	-	-
(Increase) decrease in restricted cash	-	-	(12,005)	10,670	10,670	-
Purchase of investment securities	-	(2)	-	-	-	-
Sale of property and equipment	-	-	-	21	21	
Purchase of property and equipment	(12,171)	(25,769)	(63,184)	(74,115)	(94,000)	(52,000)
Net Cash Provided by (Used in) Investing	(12,179)	(37,434)	(75,189)	(63,424)	(83,309)	(52,000)
Borrowings on long-term debt	-	30,000	31,109	-	-	-
Proceeds under New Market Tax Credit financing	-	-	5,098	-	-	-
Proceeds from economic incentive	-	-	-	1,900	1,900	-
Principal payments on long-term debt	(1,152)	(16,429)	(2,700)	(2,745)	(2,745)	-
Net borrowings (repayments) on revolving credit line	-	7,712	10,810	58,627	63,627	35,000
Bank overdrafts	-	1,706	(1,706)	-	-	-
Proceeds from the exercise of stock options	3,305	79	210	314	314	200
Excess tax benefit of stock options exercised	1,409	20	(6)	171	171	150
Deferred debt issuance cost	-	(209)	(1,349)	(105)	(105)	-
Proceeds from sale of common stock	-	-	32,119	-	-	-
Dividends paid	(10,708)	(11,781)	(13,847)	(10,797)	(14,384)	(14,384)
Net Cash Provided by (Used in) Financing	(7,146)	11,098	59,738	47,365	48,778	20,966
Net Change in Cash	1,471	(6,184)	3,340	4,200	(1,697)	262
Cash - Beginning of Period	5,734	7,205	1,021	4,361	4,361	2,664
Cash - End of Period	7,205	1,021	4,361	8,561	2,664	2,926

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	3	12
Hold		
Sell		
Not Rated		

Important Disclosures

As of the date of this report, Taglich Brothers, Inc. and/or its affiliates, own more than 1% of TIS common stock. Michael Taglich, President of Taglich Brothers, Inc., owns or has a controlling interest in 124,973 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 100,610 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 62,900 shares of TIS common stock. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

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

General Disclosures

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Analyst Certification

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

Public Companies Mentioned in this Report

Cascades (OTC PK: CADNF)
Clearwater Paper (NYSE: CLW)
Dollar General (NYSE: DG)
Family Dollar (NYSE: FDO)
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.