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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 29, 2017

TIS $13.85 — (NYSE MKT)

	2015A	2016A	2017E	2018E
Revenues (millions)	$168.4	$164.5	$163.5	$220.0
Earnings per share	$1.38	$1.24	$(0.27)	$1.88

52-Week range	$30.38 – $8.31	Fiscal year ends:	December
Shares outstanding as/of 10/31/17	10.4 million	Revenue per share (TTM)	$15.10
Approximate float	9.4 million	Price/Sales (TTM)	1.0X
Market capitalization	$144 million	Price/Sales (FY2018)E	0.7X
Tangible book value/share	$10.38	Price/Earnings (TTM)	NMF
Price/tangible book value	1.3X	Price/Earnings (FY2018)E	7.4X

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 and raising our 12-month price target to $16.00 from $15.50 per share due primarily to reduced execution risk stemming from new customer business awarded in August 2017.

In August 2017, Orchids announced it acquired a major new ultra-premium product business award from a new customer. Shipments should begin in late 4Q17 with full implementation in 2Q18. The company expects this new business, combined with business that was announced earlier in 2017 and volumes with existing customers, could provide an annual sales run-rate of at least $220 million when fully implemented.

We project relatively flat converted tonnage shipped in 2017 due primarily to new orders received early in 2017 offset by competitive pressures. We project a 33% increase in converted tonnage in 2018 due primarily to the significant ultra-premium product order from a new customer.

Orchids reported (10Q released 11/9/17) 3Q17 revenue of $45.2 million and EPS of $0.07 compared to revenue of $39.6 million and EPS of $0.21 in 3Q16. We projected 3Q17 revenue of $48.5 million and EPS of $0.11.

We project 2017 revenue of $163.5 million and a loss of $(0.27) per share. We previously projected revenue of $171.3 million and EPS of $0.28. Our reduced forecast reflects 3Q17 results.

We project 2018 revenue of $220 million and EPS of $1.88. We previously projected revenue of $202.2 million and EPS of $1.89. Our higher revenue forecast on relatively unchanged earnings primarily reflects the new ultra-premium product business and higher interest expense.

While debt and interest payments are projected to peak in 2017, we project Orchids will generate $33.2 million cash from operations in 2018, helping to reduce Orchids' total debt outstanding by approximately $31 million to $138.4 million at December 31, 2018 from a peak of $169.4 million at September 30, 2017.

Please view our disclosures on pages 14 - 16.

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Recommendation and Valuation

Reiterating Speculative Buy rating and raising our 12-month price target to $16.00 from $15.50 per share due primarily to reduced execution risk stemming from new customer business awarded in 2017.

Shares of Orchids Paper trade at a significant forward discount to its peers (see chart below) due arguably to the company's year-to-date 2017 earnings loss (its first nine-month loss in ten years), high debt/equity ratio (1.3 versus 0.5 for the industry), suspension of its $0.35 per share quarterly dividend in 2017, and the reclassification of long-term bank debt to current.

Name	Symbol	Price	Market Cap $M	Trailing P/E	2018 P/E
Procter & Gamble	PG	89.4	226,804	22.5	20.1
Kimberly-Clark	KMB	117.38	41,289	19.2	18.0
Cascades	CADNF	9.8	919	17.2	10.7
Clearwater Paper	CLW	46.9	771	20.8	12.9
Peer Average				**19.9**	**15.4**
Company					
Orchids Paper Products	**TIS**	**13.85**	**144**	**NMF**	**7.4**
Source: Taglich Brothers estimates, Thomson Reuters					

Orchids currently trades at a multiple of 7.4X our 2018 EPS projection while its peers trade at a multiple of 15.4X 2018 earnings. As revenue and earnings start to ramp and debt levels begin to diminish starting in 2H17, TIS's multiple should expand towards its peers. We applied a multiple of 9X (unchanged from our previous report) to our 2018 EPS projection of $1.88, discounted for execution risk, to obtain a year-ahead value of approximately $16.00 per share.

Significant Development

Major New Business Awarded – In August 2017, Orchids announced it acquired significant business from a new customer. The new business is for ultra-premium products, which are expected to be produced principally in Orchid's new Barnwell, SC plant. The new business should improve capacity utilization and allow Orchids to take advantage of operating leverage. Volume from this customer is expected to rank it as one of Orchids' top five customers when fully implemented. Shipments are expected to begin in late 4Q17 with full implementation in 2Q18.

The new business, combined with business that was announced earlier in 2017 and with existing customer volumes, could provide an annual sales run-rate of between $220 million and $240 million when fully implemented.

Business

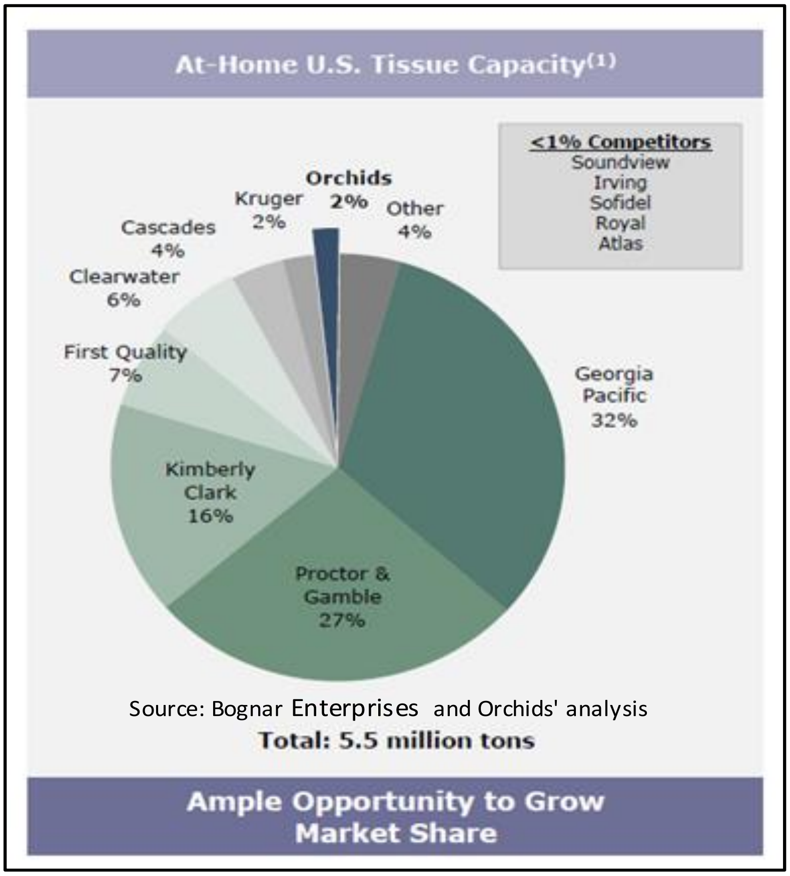
Orchids Paper Products, headquartered in Pryor, Oklahoma, manufactures bulk tissue paper, converting it into a full line of tissue products, including paper towels, bathroom tissue and paper napkins primarily for the private label segment of the consumer or "at home" market. The company targets the discount retail market, primarily dollar store retailers, due to their consistent order patterns, limited number of stock keeping units (SKUs) and the growth in this channel of the retail market. Orchids has customers throughout the US, but its sales efforts are currently focused within a 500-mile radius of its Oklahoma facility, Barnwell, South Carolina facility, and Fabrica's Mexicali, Mexico facility (which supplies TIS with converted products to the West Coast), all cost-effective shipping areas.

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

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

Market and Competition

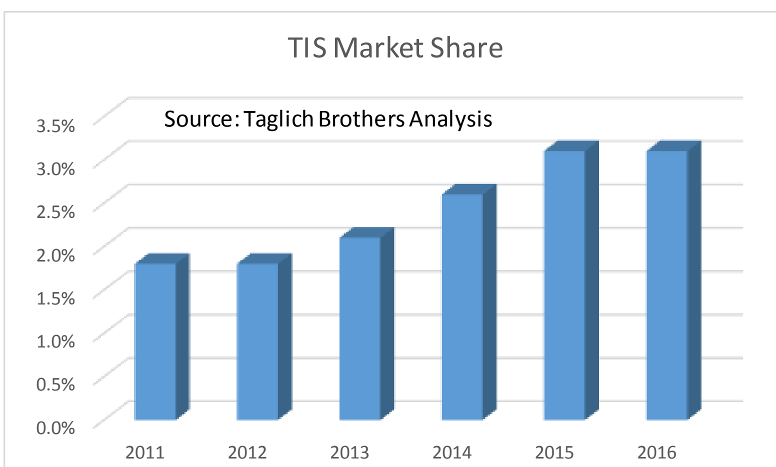
In October 2017, IBISWorld estimated the 2017 US sanitary paper product market at $12 billion with the tissue segment (paper towels, bathroom tissue, and paper napkins) at $5 billion. The overall industry is projected to grow at an average annual growth rate of 0.7% to $12.4 billion by 2023.



Dollar and variety stores, Orchids' primary target markets, are expected to realize sales of $73 billion in 2017. In September 2017, IBISWorld projected dollar and variety stores' average annual revenue growth of 2.1% to $81.2 billion by 2022 as increased competition from mass merchandisers and large superstores, such as Walmart, Target and Costco, slow growth (from 2.8% annually in the previous five year period).

Competition in the value-end of the market is significantly affected by proximity, as freight costs represent a material portion of delivered product costs. Over the past seven years, competitors (Clearwater Paper, Georgia-Pacific, Cascades, and Pacific Paper) have moved into Orchids' market areas, arguably drawn by attractive margins. The increased competition reduced Orchids' competitive cost advantage and reduced gross margins.

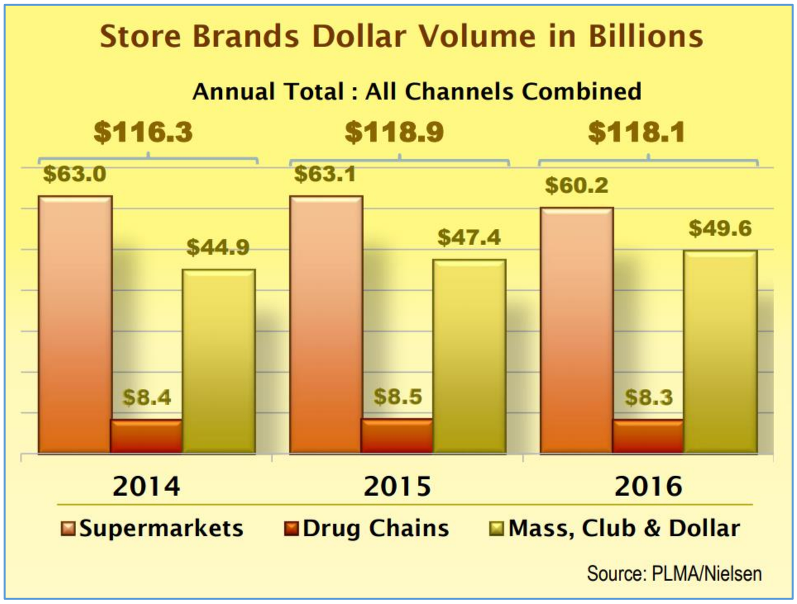
Orchids' margins were also adversely affected over the past three years which reflected low overhead coverage due to the shutdown of two of its older paper machines and the transition to a new paper machine in Oklahoma. The company also needed to purchase (versus manufacturing) parent rolls in the open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



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

Private Label Market

In the Private Label Manufacturers Association (PLMA)'s 2017 Private Label Yearbook, sales of private label products were shown to have grown from $116.3 billion in 2014 to $118.1 billion in 2016 (see chart at right). Private label paper products were the second largest contributor to total private label sales (second only to milk) and accounted for approximately 6% of all private label sales. The PLMA observed that consumers saved money during the recession by switching to private label store brands and were not returning to higher-priced options. Having realized that the store brands offered better value for the money and higher-than-expected quality, one-third of consumers no longer prefer more expensive national brands.

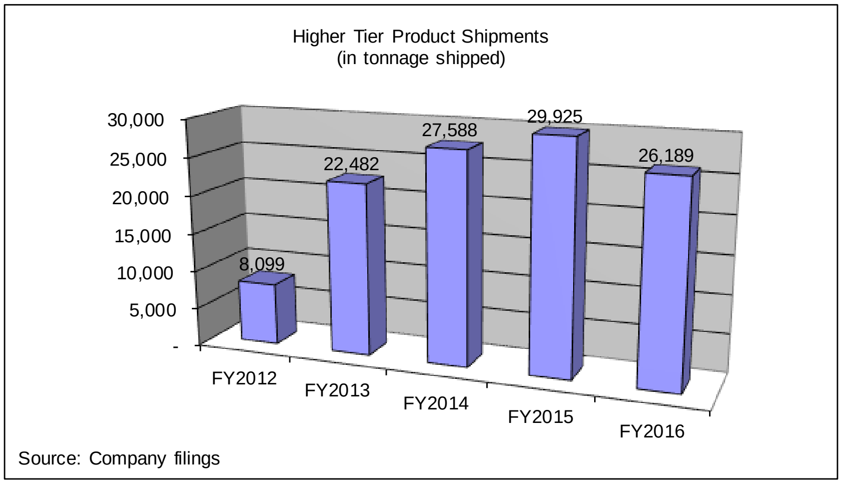


Strategy

Orchids aims to increase sales of its converted products, which yield higher margins. In 2Q14, Orchids acquired Fabrica's US business and access to 19,800 metric tons of capacity each year. In 2Q15, Orchids began construction on an integrated tissue paper facility in Barnwell, SC with paper making capacity of between 35,000 and 40,000 tons per year and converting capacity in excess of 30,000 tons per year. The first converting line was operational in 1Q16 and the second converting line was operational in 3Q16. The paper machine became operational in 2Q17.

Orchids plans to expand into retail channels such as grocery stores, mass merchandise and other discount retail sectors. Initial efforts to expand into these other channels previously had limited success due to capacity constraints and the inability to produce higher grade products. However, these shortcomings have been overcome by investing in a new converting line and developing new, higher grade products.

The graph at right shows how shipments of Orchids' higher grade converted products have grown over the past five years. Growth was driven by sales of new higher quality products (with better paper, enhanced graphics, and improved embossing). However, increased competitive pressures took a toll on Orchids' higher tier shipments in 2016.



Projections

<u>*Basis of Forecast*</u>

We project relatively flat converted tonnage shipped in 2017 due primarily to new orders received early in 2017 offset by pricing pressure stemming from continuing promotional activity by branded manufacturers. Converted tonnage is projected to increase by 33% in 2018 due primarily to a significant ultra-premium product order from a new customer that is expected to be at full production by 2Q18. The run rate of total sales once recent orders are fully implemented are expected to be between $220 and $240 million annually.

Revenue Model

2016A	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	81,430	$ 1,942	$ 158,102
Parent Roll	7,048	$ 907	$ 6,392
Total	88,478	$ 1,859	$ 164,494
2017E	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	81,832	$ 1,845	$ 150,980
Parent Roll	15,305	$ 816	$ 12,489
Total	97,137	$ 1,683	$ 163,469
2018E	Tons Shipped	Selling Price/Ton	Revenue ($,000)
Converted	108,490	$ 1,911	$ 207,324
Parent Roll	15,000	$ 845	$ 12,675
Total	123,490	$ 1,782	$ 219,999

Source: Company filings and Taglich Brothers estimates

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

The potential to increase converted product sales should come from Barnwell's ability to produce ultra-premium converted products. Orchids' private label competitors plan to expand their ultra-premium product capacity in light of the tight capacity the industry is currently experiencing. The expanded capacity is not expected to have an impact until 2019 and 2020, which should allow Orchids' to gain market share in 2018.

In 2H17, Orchids successfully passed a product qualification for ultra-premium bath tissue with a major new customer. The company is in the process of finalizing the qualification of an ultra-premium kitchen towel and is qualifying ultra-premium bath tissue and kitchen towel business for private label bids that the company expects to ship in 2018.

Although the new orders should provide a significant increase to higher margin converted product sales through our forecast horizon, continuing competitive pressures from branded manufacturers are anticipated to reduce existing business volumes.

Our 2017 converted product projection takes into account current competitive pressures offsetting new business resulting in total converted tonnage of 81,832 in 2017. For 2018, we project 108,490 tons of converted products shipped as competitive pressures ease (as they typically do every few years) and the new ultra-premium order is at full production in 2Q18.

In June 2017, a new paper machine commenced operations and its production capacity should increase over the next year. We project 2017 and 2018 parent roll shipments of approximately 15,000 tons in 2017 and 2018.

We project 2017 selling prices of $1,845/ton for converted products and $816/ton for parent rolls. In 2018, we anticipate selling prices of $1,911/ton for converted products and $845/ton for parent rolls. Our paper price projections take into consideration the lower prices associated with new bids in 2017 and the 3.6% average increase in paper selling prices over the two year period projected by IBISWorld. Paper price gains should be supported as falling demand is being outpaced by contracting supply.

Orchids' margins were adversely affected over the past three years which reflected low overhead coverage due to the shutdown of two of its older paper machines and the transition to a new paper machine in Oklahoma. The company also needed to purchase (versus manufacture) parent rolls in the open market, had to shut down a converting line for approximately eight weeks, and was adversely affected by low overhead coverage associated with the construction, start-up, and underutilization of its Barnwell facility in 2017, which we believe will be the low point in gross margins (see table above).

	2014A	2015A	2016A	2017E	2018E
Conv. Tons	67,870	82,972	81,430	81,832	108,490
Total Tons	72,792	90,408	88,478	97,137	123,490
Conv. Ton %	93.2%	91.8%	92.0%	84.2%	87.9%
Gross Margin	18.7%	18.1%	18.3%	6.3%	23.1%

Source: Company filings and Taglich Brothers estimates

We anticipate gross margins should expand to 23.1% in 2018 (a level not seen since 2013) due primarily to higher margin converted product volumes (includes the recent ultra-premium product business) and a full year of production from its new, more efficient paper machine in Barnwell, South Carolina.

Operations

2017 - We project revenue of $163.5 million and a net loss of $2.9 million or $(0.27) per share. We previously projected revenue of $171.3 million and net income of $3 million or $0.28 per share. Our reduced forecast reflects 3Q17 results. We project gross margins decreasing to 6.3% due to the Barnwell facility's start-up issues. SG&A expenses should increase 16.7% to $12 million, reflecting higher compensation and increased legal and professional fees. Operating margins should decrease to (1.6%) from 11.4% due primarily to a $19.8 million decrease in gross profit to $10.3 million reflecting gross margin compression and higher operating expenses. We project interest expense of $3.9 million, up from $1.7 million due to higher debt levels to support projects needed to complete the Barnwell, South Carolina facility and the majority of capitalized interest ending in 4Q17.

For 2017, we project Orchids will generate $14.2 million cash from operations on cash earnings of $8.8 million and a $5.4 million decrease in working capital. Significant increases in income taxes receivable will drive the change in working capital. Cash from operations will not cover our projected $45 million in capital expenditures (primarily for the South Carolina facility) requiring a $25.4 million net increase in debt and $1.7 million proceeds from the issuance of common stock. We project a $5.6 million decrease in cash to $3.2 million at December 31, 2017.

2018 - We project revenue of $220 million and net income of $21.1 million or $1.88 per share. We previously projected revenue of $202.2 million and net income of $21.2 million or $1.89 per share. Our higher revenue forecast on relatively unchanged earnings primarily reflects the new ultra-premium product business and higher interest expense.

We project gross margins increasing to 23.1% as converted product sales increase and the cost savings from a full year of operation from the new paper machine in Barnwell, South Carolina are realized.

We project SG&A expenses increasing $1.2 million to $13.2 million primarily to support growth. Operating margins should increase to 16.7% from (1.6%) reflecting gross profit increasing in excess of $40 million to $50.8 million, as gross margins expand to 23.1% from our projection of 6.3% in 2017. We anticipate interest expense increasing to $6.3 million from $3.9 million due primarily to a full year of non-capitalized interest expense, partly offset by lower average debt levels. The tax rate is estimated at 32%.

For 2018, we project Orchids will generate $33.2 million cash from operations from cash earnings of $35.3 million and a $2.1 million increase in working capital. The change in working capital will come primarily from increases in receivables and inventories offset in part by increases in payables and accruals. Cash from operations should nearly cover our projected $5 million in capital expenditures and $27.7 million pay down of debt, decreasing cash by $465,000 to $2.7 million at December 31, 2018.

3Q and nine-months 2017 Financial Results

3Q17 - Sales increased 14% to $45.2 million from $39.6 million in 3Q16. Net income was $705,000 or $0.07 per share versus net income of $2.2 million or $0.21 per share. We projected 3Q17 revenue of $48.5 million and net income of $1.3 million or $0.11 per share.

Converted product sales increased 9.7% to $3.7 million as a result of the continuing ramp-up of new private-label business. Net sales of converted product benefitted approximately $4.2 million from increased volume, while a lower average selling price per ton had an adverse impact of approximately $500,000. Parent roll sales more than doubled to $3.2 million due to ramping-up capacity at the new mill in Barnwell, South Carolina. The company aims to run its paper-making mills at capacity. Volumes in excess of what is needed to support converted products are sold as parent rolls.

Gross profit decreased 55.9% to $2.7 million as gross margins decreased to 6.1% from 15.7%. The decrease in gross margins was primarily due to both to a decrease in the average selling price per ton and increases in overhead, material, and freight costs.

Selling, general and administrative (SG&A) expenses increased by 18.3% to $3 million due to contributions of excess inventory to support hurricane relief efforts and increased legal and professional fees.

The company recognized $233,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. The operating loss was $519,000 compared to operating income of $3.4 million in the year ago period. Interest expense increased to $827,000 from $639,000 due to higher debt balances.

Nine-months 2017 - Sales of $119 million were down 6% from the first nine months of 2016. The net loss was $2.2 million or $(0.21) per share versus net income of $10.2 million or $0.98 per share.

	9m17A	9m16A	% change
	(in thousands $)		
Net sales	118,969	126,785	(6.2%)
Cost of sales	112,746	102,316	10.2%
Gross profit	6,223	24,469	(74.6%)
Intangibles amortization	699	986	(29.1%)
SG&A expenses	8,934	7,783	14.8%
Operating income (loss)	(3,410)	15,700	(121.7%)
Interest expense	1,904	1,187	60.4%
Other (income) expense	(324)	(527)	(38.5%)
Income (loss) before taxes	(4,990)	15,040	(133.2%)
Income tax expense (benefit)	(2,788)	4,850	(157.5%)
Net income (loss)	(2,202)	10,190	(121.6%)
Diluted EPS	(0.21)	0.98	(121.6%)
Diluted Shares Outstanding	10,366	10,351	
Margin Analysis			
Gross margin	5.2%	19.3%	
SG&A expenses	7.5%	6.1%	
Operating margin	(2.9%)	12.4%	
Net margin	(1.9%)	8.0%	

Source: Company filings

Converted product net sales decreased 10.8% to $109.6 million reflecting a 6% decrease in average tons sold combined with a 5% decrease in the average price per ton. Parent roll sales more than doubled to $9.4 million reflecting a 167% increase in sales volume net of a 10% decrease in the average price per ton.

Gross profit decreased 74.6% to $6.2 million as gross margins decreased to 5.2% from 19.3%. The decrease in gross margins was primarily due to higher average production cost per unit combined with a decrease in the average selling price per ton. The increase in production costs was primarily due to under-utilization at the Barnwell facility.

Selling, general and administrative (SG&A) expenses increased by 14.8% to $8.9 million due primarily to contributions of excess inventory to support hurricane relief efforts and increased legal and professional fees.

The company recognized $699,000 of amortization expense related to the intangible assets acquired in the Fabrica transaction. The operating loss was $3.4 million compared to operating income of $15.7 million. Interest expense increased to $1.9 million from $1.2 million due to higher debt balances.

Liquidity - As of September 30, 2017, Orchids had cash of $2.1 million, a current ratio of 0.2 versus 0.8 for the paper products industry, and a debt/equity ratio of 1.3 versus 0.5 for the industry. All of the company's long-term debt was classified as current due to the uncertainty regarding Orchids' ability to meet the existing debt covenants with its lender over the next twelve months. Orchids' total debt has more than quadrupled in a little over two years to over $170 million from approximately $36 million at the end of 2014. The increase in debt was to fund the expansion into South Carolina and capital expenditures.

Cash from operations of $8.3 million in the first nine months of 2017 was due to $5.9 million cash earnings and a $2.4 million decrease in working capital. The decrease in working capital was primarily due to an increase in accounts payable and a decrease in income taxes receivable offset in part by increases in accounts receivable and inventories. Cash from operations and a $30.2 million net increase in debt was more than offset by capital expenditures of $44.1 million and $3.6 million in 1Q17 dividend payments resulting in a $6.7 million decrease in cash to $2.1 million as of September 30, 2017.

In November 2017, Orchids entered into an amended $180 million credit agreement with US Bank National Association. The agreement includes a $25 million revolving credit line due June 2020, a $47.3 million term loan due June 2020, a $108.5 million delayed draw term loan with a two year draw period due June 2020, and an accordion feature allowing the revolving credit line and/or delayed draw commitment to be increased by up to $50 million at any time during the credit agreement. Advances under the facility bear interest at a variable rate of LIBOR plus a margin of 1.25% to 6% depending on the company's leverage ratio, or a base rate plus a margin of up to 3.75% depending upon the company's leverage ratio.

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

In December 2015, Orchids entered into an $11.1 million term loan with US Bank. The loan bears interest at a rate of 4.4% and matures on December 29, 2022.

As of September 30, 2017, the company's weighted-average interest rate was 5.19%.

In May 2017, Orchids entered into an equity distribution agreement with Sun Trust Robinson where Orchids may sell up to $40 million of common stock at market prices. During 2017, Orchids' sold 118,700 shares of common stock at a weighted average price of $16.90 per share for net proceeds of $1.8 million after deducting commissions and fees.

The company is seeking to refinance its existing long-term debt obligations within the fourth quarter of 2017. Orchids may also need to seek a waiver of its financial covenants for the fourth quarter of 2017. If the company is unable to obtain another waiver of these financial covenants and/or a refinancing is not completed, the bank could declare a default.

Risks

Customer concentration

Two customers (Dollar General and Family Dollar) accounted for approximately 36% of total sales in 2016. Any substantial decrease or delay in sales to one or more of Orchids' key customers would harm sales and financial results.

Competition

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

Orchids may not be able to sell the capacity from its expanded converting line

Underutilization of capacity could lead to unabsorbed overhead and gross margin compression.

South Carolina construction project

Orchids' South Carolina construction project began in 2015 with the first converting line operational at the end of 1Q16, the second operational in 3Q16, and the new paper machine expected to be operational in June 2017. Total cost is estimated at $160 million of which $155 million has been expended as of June 30, 2017. There can be no assurance that the construction, installation, and ramp of production will proceed as scheduled, for the anticipated costs, or at all.

Uncertainty in meeting debt covenants – As of September 30, 2017, Orchids' borrowings under its credit agreement and term loan that are due in 2020 were classified as current on the balance sheet due to the increased level of uncertainty surrounding the company's ability to meet its existing debt covenants. The company has obtained waivers over the first three quarters of 2017 and may need to obtain a waiver for the fourth quarter of 2017. If the company is unable to obtain another waiver, the bank could declare a default.

No reliance on contracts

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

Potential dilution

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

Liquidity risk

Microcap stocks typically have small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. Orchids has 9.4 million shares in the float with an average daily volume of approximately 98,000 shares.

Miscellaneous risks

The company's financial results and equity values are subject to other risks, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Consolidated Balance Sheets
(in thousands $)

	2014A	2015A	2016A	3Q17A	2017E	2018E
Cash	1,021	4,361	8,750	2,079	3,188	2,722
Accounts receivable	10,195	11,834	9,445	17,012	9,386	12,632
Inventories	9,650	13,501	18,414	20,884	20,992	23,191
Short term investments	-	-	-	-	-	-
Income taxes receivable	634	5,628	8,735	3,385	3,385	3,385
Prepaid expenses	1,285	1,136	925	1,222	1,222	1,222
Other	899	1,853	868	204	204	204
Deferred income taxes	614	1,300	-	-	-	-
Total current assets	24,298	39,613	47,137	44,786	38,377	43,357
Property, plant and equipment	119,720	173,378	249,184	288,231	280,552	272,736
Restricted cash	-	12,005	1,276	9	9	9
VAT receivable	1,734	1,751	212	227	227	227
Intangible assets	17,237	15,730	14,511	13,812	13,611	12,711
Goodwill	7,560	7,560	7,560	7,560	7,560	7,560
Deferred debt issuance costs	190	1,342	-	-	-	-
Total Assets	170,739	251,379	319,880	354,625	340,336	336,600
Bank overdrafts	1,706	-	-	563	563	563
Accounts payable	11,391	11,098	10,869	21,576	12,391	13,689
Accrued liabilities	3,747	3,880	2,545	3,147	2,529	3,404
Dividends payable	-	-	-	-	-	-
Short-term notes payable	-	-	-	668	668	-
Current portion of long-term debt	2,700	3,882	6,728	169,392	165,392	138,392
Total current liabilities	19,544	18,860	20,142	195,346	181,543	156,048
Long-term debt	33,662	71,699	133,989	33	33	33
Other	-	5,098	5,170	5,222	5,222	5,222
Deferred income taxes	17,020	21,939	27,334	24,364	24,364	24,364
Total liabilities	70,226	117,596	186,635	224,965	211,162	185,667
Total stockholders' equity	100,513	133,783	133,245	129,660	129,174	150,933
Total liabilities & stockholders' equity	170,739	251,379	319,880	354,625	340,336	336,600

Source: Company filings and Taglich Brothers' estimates

Orchids Paper Products Company

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

	2014A	2015A	2016A	2017E	2018E
Net sales	142,724	168,446	164,494	163,469	220,000
Cost of sales	115,985	137,949	134,345	153,152	169,200
Gross profit	26,739	30,497	30,149	10,317	50,800
Intangibles amortization	753	1,507	1,219	932	932
SG&A expenses	11,675	9,540	10,244	11,959	13,200
Operating income (loss)	14,311	19,450	18,686	(2,574)	36,668
Interest expense	271	521	1,678	3,904	6,300
Other (income) expense	181	(683)	(214)	(474)	(600)
Income (loss) before taxes	13,859	19,612	17,222	(6,004)	30,968
Income tax expense (benefit)	4,394	6,055	4,411	(3,115)	9,910
Net income (loss)	9,465	13,557	12,811	(2,889)	21,058
EPS	1.11	1.38	1.24	(0.27)	1.88
Shares Outstanding	8,539	9,844	10,349	10,587	11,200
Margin Analysis					
Gross margin	18.7%	18.1%	18.3%	6.3%	23.1%
SG&A expenses	8.2%	5.7%	6.2%	7.3%	6.0%
Operating margin	10.0%	11.5%	11.4%	(1.6%)	16.7%
Net margin	6.6%	8.0%	7.8%	(1.8%)	9.6%
Tax rate	31.7%	30.9%	25.6%	51.9%	32.0%
Year / Year Growth					
Total Revenues	22.6%	18.0%	(2.3%)	(0.6%)	34.6%
Net Income	(28.9%)	43.2%	(5.5%)	(122.6%)	NMF
EPS	(33.6%)	24.2%	(10.1%)	(122.0%)	NMF

Source: Company filings and Taglich Brothers' estimates

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

	3/16A	6/16A	9/16A	12/16A	2016A	3/17A	6/17A	9/17A	12/17E	2017E	3/18E	6/18E	9/18E	12/18E	2018E
Net sales	47,743	39,414	39,628	37,709	164,494	35,354	38,443	45,172	44,500	163,469	51,000	54,000	57,000	58,000	220,000
Cost of sales	36,362	32,541	33,413	32,029	134,345	33,385	36,929	42,432	40,406	153,152	40,800	41,580	43,320	43,500	169,200
Gross profit	11,381	6,873	6,215	5,680	30,149	1,969	1,514	2,740	4,094	10,317	10,200	12,420	13,680	14,500	50,800
Intangibles amortization	377	376	233	233	1,219	233	233	233	233	932	233	233	233	233	932
SG&A expenses	2,722	2,504	2,557	2,461	10,244	2,619	3,289	3,026	3,025	11,959	3,060	3,240	3,420	3,480	13,200
Operating income (loss)	8,282	3,993	3,425	2,986	18,686	(883)	(2,008)	(519)	836	(2,574)	6,907	8,947	10,027	10,787	36,668
Interest expense	263	285	639	491	1,678	517	560	827	2,000	3,904	1,800	1,650	1,500	1,350	6,300
Other (income) expense	(201)	(164)	(162)	313	(214)	(167)	(115)	(42)	(150)	(474)	(150)	(150)	(150)	(150)	(600)
Income (loss) before taxes	8,220	3,872	2,948	2,182	17,222	(1,233)	(2,453)	(1,304)	(1,014)	(6,004)	5,257	7,447	8,677	9,587	30,968
Income tax expense (benefit)	2,811	1,304	735	(439)	4,411	(373)	(406)	(2,009)	(327)	(3,115)	1,682	2,383	2,777	3,068	9,910
Net income (loss)	5,409	2,568	2,213	2,621	12,811	(860)	(2,047)	705	(687)	(2,889)	3,575	5,064	5,900	6,519	21,058
EPS	0.52	0.25	0.21	0.25	1.24	(0.08)	(0.20)	0.07	(0.06)	(0.27)	0.32	0.45	0.53	0.58	1.88
Shares Outstanding	10,343	10,375	10,368	10,344	10,349	10,350	10,367	10,429	11,200	10,587	11,200	11,200	11,200	11,200	11,200
Margin Analysis															
Gross margin	23.8%	17.4%	15.7%	15.1%	18.3%	5.6%	3.9%	6.1%	9.2%	6.3%	20.0%	23.0%	24.0%	25.0%	23.1%
SG&A expenses	5.7%	6.4%	6.5%	6.5%	6.2%	7.4%	8.6%	6.7%	6.8%	7.3%	6.0%	6.0%	6.0%	6.0%	6.0%
Operating margin	17.3%	10.1%	8.6%	7.9%	11.4%	(2.5%)	(5.2%)	(1.1%)	1.9%	(1.6%)	13.5%	16.6%	17.6%	18.6%	16.7%
Net margin	11.3%	6.5%	5.6%	7.0%	7.8%	(2.4%)	(5.3%)	1.6%	(1.5%)	(1.8%)	7.0%	9.4%	10.4%	11.2%	9.6%
Tax rate	34.2%	33.7%	24.9%	(20.1%)	25.6%	30.3%	16.6%	154.1%	32.3%	51.9%	32.0%	32.0%	32.0%	32.0%	32.0%
Year / Year Growth															
Total Revenues	27.6%	(6.8%)	(15.4%)	(10.0%)	(2.3%)	(25.9%)	(2.5%)	14.0%	18.0%	(0.6%)	44.3%	40.5%	26.2%	30.3%	34.6%
Net Income	337.6%	(33.8%)	(53.3%)	(29.2%)	(5.5%)	(115.9%)	(179.7%)	(68.1%)	(126.2%)	(122.6%)	NMF	NMF	NMF	NMF	NMF
EPS	273.4%	(37.1%)	(53.1%)	(29.1%)	(10.1%)	(115.9%)	(179.8%)	(68.3%)	(124.2%)	(122.0%)	NMF	NMF	NMF	NMF	NMF

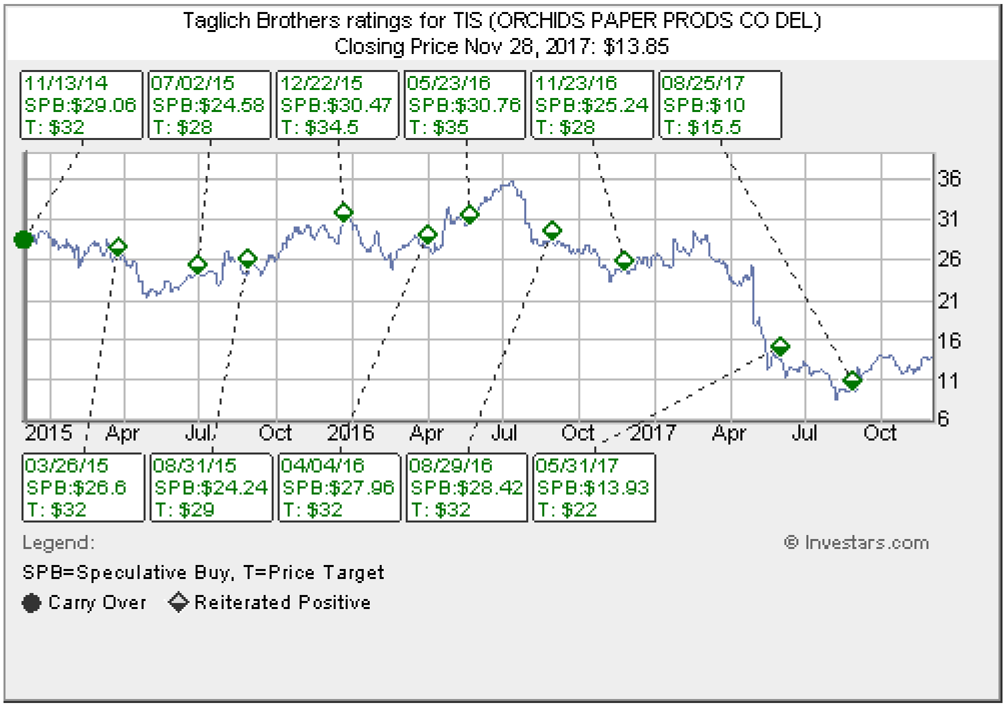
Source: Company filings and Taglich Brothers' estimates

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

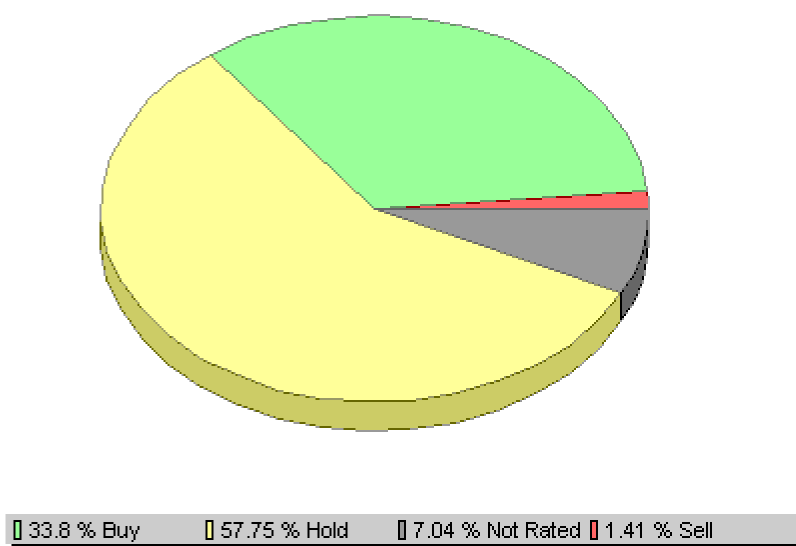
	2014A	2015A	2016A	9m17A	2017E	2018E
Net income(loss)	9,465	13,557	12,811	(2,202)	(2,889)	21,058
Depreciation and amortization	9,749	11,420	13,229	10,650	14,102	13,716
Provision for doubful accounts	20	-	(125)	-	-	-
Deferred income taxes	(2,491)	4,235	7,570	(2,970)	(2,970)	-
Stock based compensation	1,879	1,048	566	365	500	500
(Gain) loss on disposal of property, plant and equipment	8	-	17	52	52	-
Cash earnings	18,630	30,260	34,068	5,895	8,795	35,274
Changes in assets and liabilities						
Accounts receivable	(2,556)	(1,640)	2,514	(7,567)	59	(3,246)
Inventories	1,272	(3,852)	(4,913)	(2,470)	(2,578)	(2,200)
Prepaid expenses	(422)	149	211	(297)	(297)	-
Income taxes receivable	(634)	(4,994)	(3,107)	5,350	5,350	-
Non-current income taxes receivable	-	-	-	-	-	-
Other current assets	(3,560)	(972)	2,237	649	1,400	1,189
Accounts payable	7,706	(293)	(973)	6,136	1,522	1,298
Acrrued liabilities	(284)	133	(2,210)	600	(16)	875
(Increase) decrease in working capital	1,522	(11,469)	(6,241)	2,401	5,440	(2,084)
Net Cash Provided by (Used in) Operations	20,152	18,791	27,827	8,296	14,235	33,191
Acquisition of Fabrica's US business	(16,700)	-	-	-	-	-
Proceeds from the sale of investment securities	5,037	-	-	-	-	-
Proceeds from insurance settlement	-	-	420	51	51	-
(Increase) decrease in restricted cash	-	(12,005)	10,729	1,267	1,267	-
Purchase of investment securities	(2)	-	-	-	-	-
Sale of property and equipment	-	-	34	-	-	-
Purchase of property and equipment	(25,769)	(63,184)	(88,862)	(44,104)	(45,000)	(5,000)
Net Cash Provided by (Used in) Investing	(37,434)	(75,189)	(77,679)	(42,786)	(43,682)	(5,000)
Borrowings on long-term debt	30,000	31,109	-	-	-	-
Proceeds under New Market Tax Credit financing	-	5,098	-	-	-	-
Proceeds from economic incentive	-	-	1,900	-	-	-
Principal payments on long-term debt	(16,429)	(2,700)	(3,882)	(3,415)	(3,415)	(25,000)
Net borrowings (repayments) on revolving credit line	7,712	10,810	70,267	32,939	28,939	(2,000)
Borrowings on short-term notes	-	-	-	857	857	-
Payments on short-term notes	-	-	-	(189)	(189)	(668)
Bank overdrafts	1,706	(1,706)	-	563	563	-
Proceeds from the exercise of stock options	79	210	314	134	200	200
Excess tax benefit of stock options exercised	20	(6)	171	-	-	-
Deferred debt issuance cost	(209)	(1,349)	(129)	(1,188)	(1,188)	(1,188)
Proceeds from sale of common stock	-	32,119	-	1,725	1,725	-
Dividends paid	(11,781)	(13,847)	(14,400)	(3,607)	(3,607)	-
Net Cash Provided by (Used in) Financing	11,098	59,738	54,241	27,819	23,885	(28,656)
Net Change in Cash	(6,184)	3,340	4,389	(6,671)	(5,562)	(465)
Cash - Beginning of Period	7,205	1,021	4,361	8,750	8,750	3,188
Cash - End of Period	1,021	4,361	8,750	2,079	3,188	2,722

Source: Company filings and Taglich Brothers' estimates

Price Chart



Taglich Brothers' Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	10
Hold		
Sell		
Not Rated	1	33

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 141,673 shares of TIS common stock. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 90,610 shares of TIS common stock. Richard Oh, Managing Director of Taglich Brothers, Inc., owns 13,864 shares of TIS common stock. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc. and a Director of Orchids Paper Products Company, owns 72,900 shares of TIS common stock. Other employees at Taglich Brothers, Inc. own 363 shares of TIS common stock. Taglich Brothers, Inc. had an Investment Banking relationship with the company mentioned in this report. In March 2004, Orchids Acquisition Group, Inc. was formed by Taglich Brothers, Inc. and Weatherly Group, LLC exclusively for the purpose of acquiring all of the outstanding shares of Orchids Paper Products Company, and was subsequently merged into the company. In July 2005, Orchids completed its initial public offering (of which Taglich Brothers, Inc. was the managing underwriter) and began trading on the American Stock Exchange under the symbol TIS.

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

General Disclosures

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Analyst Certification

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

Public Companies Mentioned in this Report

Cascades (OTC PK: CADNF)
Clearwater Paper (NYSE: CLW)
Dollar General (NYSE: DG)
Family Dollar (NYSE: FDO)
Kimberly-Clark (NYSE: KMB)
Procter & Gamble (NYSE: PG)
Wal-Mart (NYSE: WMT)

Meaning of Ratings

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

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

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

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

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

Some notable Risks within the Microcap Market

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

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