



Swiss Water Decaffeinated Coffee Inc.

7750 Beedie Way | Delta | British Columbia | Canada V4G 0A5

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Swiss Water Reports Strong Second Quarter and First Half Volumes, Revenue, Net Income, and Adjusted EBITDA

VANCOUVER, BC, August 4, 2022 / GLOBE NEWSWIRE / Swiss Water Decaffeinated Coffee Inc. (**TSX: SWP**) (“Swiss Water” or “the Company”), a leading specialty coffee company and premium green coffee decaffeinator, today reported strong financial results for the three and six months ended June 30, 2022.

Three and Six Months ended June 30, 2022 Financial and Operational Highlights

- Second quarter revenue was \$48.4 million, an increase of 68% or \$19.6 million when compared to the same period in 2021. Year-to-date revenue also grew strongly and was \$86.8 million, an increase of 59% or \$32.3 million.
- Quarterly and year-to-date processing volumes increased by 40% and 32% respectively, compared to the same periods last year, driven by a combination of new customer acquisition and organic growth with existing customers.
- North American business growth accelerated with second quarter volumes up by 34% compared to Q2 of 2021 and up by 27% year-to-date, compared to the same period in 2021. International markets also grew strongly with volumes up by 68% and 51% for the three and six months respectively.
- Net income for the three and six months ended June 30, 2022 was \$1.5 million and \$2.8 million, an increase of \$1.2 and \$2.7 million respectively, compared to the same periods in 2021. The improvement was driven by a combination of strong volume growth, increased green coffee differential margin, high capacity utilization of production assets and disciplined management of inflationary pressure.
- Second quarter and year-to-date Adjusted EBITDA¹ was \$5.3 million and \$9.2 million, an increase of 117% or \$2.9 million and 107% or \$4.8 million respectively when compared to the same periods in 2021.
- During the second quarter, Swiss Water continued the on-site construction of a second production line in Delta, BC. Over the quarter, the impacts of global macroeconomic pressures, including inflation, trades disruptions, and supply chain issues, became more acute in terms of project budget and schedule. The Company now considers 10% of the preliminary cost estimate to be an appropriate risk factor and is actively working to mitigate cost and schedule impacts.

¹ Adjusted EBITDA is defined in the ‘Non-IFRS Measures’ section of the MD&A and is a “Non-GAAP Financial Measure” as defined by CSA Staff Notice 52-306.



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- During the second quarter, an agreement was reached with Mill Road Capital LLC (“MRC”) to increase Swiss Water’s senior debt covenant from \$65.0 million to \$68.0 million. The Company remains engaged in discussion with MRC to increase this limit further, should this be required to support future financing solutions.
- The Company is continuing to evaluate opportunities to raise new capital to support its long term strategic objectives, including enhancements to its hedging program, working capital and long term debt facilities, and is reviewing other financing alternatives.

“We are very pleased to report that the strong performance we achieved during the first quarter of 2022 strengthened further during the second quarter of this year. Our volumes, revenues and profitability have all exceeded our expectations, leading to a stronger than expected first half of the year. Total second quarter volume grew by 40%, and our biggest market, North America, maintained strong double digit growth during this period. Our existing customers are experiencing strong growth in demand for their chemical free decaf offerings and additionally, we have benefited from increased shipments to a number of new out-of-home customers in North America. We are seeing very good evidence in the marketplace that our competitors’ methylene chloride decaffeination is declining in preference by roasters and consumers in favour of chemical free processes like ours. Furthermore, we are excited to share that our capacity utilization rates remain high and are continuing to drive improved profitability. This is helping us manage higher than expected and persistent inflationary pressure”, said Frank Dennis, Swiss Water’s President and CEO. *“As we look forward into the second half of 2022, we are continuing to see a strong order book and are optimistic that, despite emerging macroeconomic risks, we will continue to see favourable trading conditions in our key markets. On a more cautionary note, we are continuing to experience delays in coffee deliveries as supply chain bottlenecks persist. Furthermore, the continuation of very high coffee futures prices has resulted in a significant increase in our working capital and liquidity needs. We will pay close attention to these emerging risks and increasing costs, and expect that further pricing actions and other mitigation efforts will likely be required”,* said Dennis.

Operational Highlights

The following table shows changes in volumes during the three and six months ended June 30, 2022, compared to the same period in 2021.

Volumes	3 months ended June 30, 2022	6 months ended June 30, 2022
Change in total volumes	+40%	+32%
<u>By customer type</u>		
Roasters	+15%	+8%
Importers	+80%	+68%
Specialty	+56%	+42%
Commercial	+29%	+25%



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- Total processing volumes increased by 40% in the second quarter and by 32% for the year-to-date when compared to the same periods last year. Across all geographical markets, many of Swiss Waters’ customers are seeing strong consumer demand and, in most cases, are ordering ahead of pre-pandemic levels. Furthermore, volume growth was enhanced during the second quarter as the Company accelerated shipments to new out-of-home customers within North America. Encouragingly, Swiss Water recorded 27% and 51% volume growth in its North America and international regions, respectively, during the first half of 2022.
- Swiss Water’s largest geographical market by volume in the first half of the year was the United States, followed by international markets, and Canada. By dollar value, 45% of the Company’s sales were to customers in the United States, 32% were to international customers, and the remaining 23% were to Canada. Swiss Water’s international business continues to expand, and anticipated revenues from European and Asia-Pacific markets are expected to continue to increase in both dollar value and percentage during the second half of 2022.
- During the second quarter, the Company continued the on-site construction of a second production line in Delta, BC. The preliminary cost estimate of this project was approximately \$45.0 million, plus commissioning costs of approximately \$2.0 million. In the second quarter, the impacts of global macroeconomic pressures, including inflation, trades disruptions, and supply chain issues, became more acute in terms of project budget and schedule. The Company now considers 10% of the preliminary cost estimate to be an appropriate risk factor and is actively working to mitigate cost and schedule impacts.
- Inflationary pressure within Swiss Water’s variable cost structure remains intense and the control of these expenses is being carefully managed in order to limit the impact on the Company’s operational effectiveness and its trading partners.

Financial Highlights

In \$000s except per share amounts (unaudited)	3 months ended June 30		6 months ended June 30	
	2022	2021	2022	2021
Revenue	\$ 48,368	\$ 28,759	\$ 86,783	\$ 54,451
Gross profit	7,952	3,652	13,715	7,204
Operating income	4,416	1,106	7,296	1,844
Net income	1,460	216	2,845	120
Adjusted EBITDA ¹	5,335	2,461	9,226	4,448
Net income per share – basic ²	\$ 0.16	\$ 0.02	\$ 0.31	\$ 0.01
Net income per share – diluted ²	\$ 0.16	\$ 0.02	\$ 0.31	\$ 0.01

¹ Adjusted EBITDA is defined in the ‘Non-IFRS Measures’ section of the MD&A and is a “Non-GAAP Financial Measure” as defined by CSA Staff Notice 52-306.

² Per-share calculations are based on the weighted average number of shares outstanding during the periods. Diluted earnings per share take into account shares that may be issued upon conversion of the convertible debenture, the exercise of warrants, and RSUs as well as the impact on earnings from changes in the fair market value of the embedded option in the convertible debenture (until July 20, 2021) and conversion of RSUs and the exercise of warrants.



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- Second quarter revenue was \$48.4 million, an increase of 68% over Q2 2021, and year-to-date revenue was \$86.8 million, an increase of 59%. The growth rates were driven by a combination of volume growth, and higher green coffee prices compared to the same periods in 2021.
- Gross profit was \$8.0 million during the quarter, an increase of \$4.3 million over Q2 2021 and was \$13.7 million during the first half, an increase of \$6.5 million over the first six months of last year. The significant increase in gross profit was primarily driven by higher trading volume, which in turn helped generate capacity utilization efficiencies. In addition, gross profit benefited from a material increase in green coffee differential margin.
- Operating income was \$4.4 million for the quarter, an increase of \$3.3 million over Q2 2021 and was \$7.3 million for the first half, an increase of \$5.5 million over the same period in 2021. Operating expenses of \$3.5 million and \$6.4 million for the three and six months ended June 30, 2022 respectively represent an increase of \$1.0 million compared with the same periods in 2021. Non-operating expenses were higher, mainly due to an increase in finance expense associated with Swiss Waters' construction loans and working capital credit facility.
- Net income was \$1.5 million for the quarter, an increase of \$1.2 million over Q2 2021 and was \$2.8 million for the first half, an increase of \$2.7 million over the first six months of 2021. This change reflects the combination of improvements in gross margin and operating income.
- Second quarter Adjusted EBITDA was \$5.3 million, representing an increase of \$2.9 million or 117% over Q2 2021. Year-to-date Adjusted EBITDA was \$9.2 million, representing an increase of \$4.8 million or 107% compared to first half of 2021. Operationally, the increase in Adjusted EBITDA in both periods was driven by volume growth, efficiency gains due to higher capacity utilization rates, and an increased financial contribution from Seaforth, the Company's coffee handling and logistics subsidiary. These gains were somewhat offset by an increase in green coffee costs and incremental labour and production expenses associated with operating at two stand-alone facilities. The costs associated with running two plants will cease when the Company exits its Burnaby facility, expected to occur at the end of June 2023.

NON-IFRS MEASURES

Adjusted EBITDA

Swiss Water defines Adjusted EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of property and capital equipment, fair value adjustments on embedded options, loss on extinguishment of debt, adjustment for the impact of IFRS 16 - Leases, and provision for income taxes. The Company's definition of Adjusted EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.



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To help readers better understand Swiss Waters’ financial results, the following table provides a reconciliation of net income, an IFRS measure, to Adjusted EBITDA as follows:

In \$000s (unaudited)	3 months ended June 30,		6 months ended June 30,	
	2022	2021	2022	2021
Net income for the period	\$ 1,460	\$ 216	\$ 2,845	\$ 120
Income tax expense	472	440	1,001	429
Income before tax	\$ 1,932	\$ 656	\$ 3,846	\$ 549
Finance income	(140)	(153)	(211)	(268)
Finance expenses	1,460	1,028	2,669	2,050
Depreciation & amortization	1,940	1,703	3,492	3,416
Unrealized loss on foreign exchange forward contracts	150	156	141	309
Fair value gain on the embedded option	-	(41)	-	(8)
Loss (gain) on foreign exchange	659	(330)	453	(571)
Share-based compensation expense	20	144	209	374
Impact of IFRS 16 - Leases	(686)	(702)	(1,373)	(1,403)
Adjusted EBITDA	\$ 5,335	\$ 2,461	\$ 9,226	\$ 4,448

Company Profile

Swiss Water Decaffeinated Coffee Inc. is a leading specialty coffee company and a premium green coffee decaffeinator that employs the proprietary Swiss Water® Process to decaffeinate green coffee without the use of solvents such as methylene chloride. It also owns Seaforth Supply Chain Solutions Inc., a green coffee handling and storage business. Both businesses are located in the cities of Burnaby and Delta, British Columbia, Canada.

Additional Information

*A conference call to discuss Swiss Water’s recent financial results will be held on **August 5, 2022, at 10:00 am Pacific (1:00 pm Eastern)**. To access the conference call, please dial **1-877-545-0320** (toll free) or **1-973-528-0002** (international); passcode: **198947**. A replay will be available through August 19, 2022 at 1-877-481-4010 (toll free) or 1-919-882-2331 (international); passcode: 46327.*

A more detailed discussion of Swiss Water Decaffeinated Coffee Inc.’s recent financial results is provided in the Company’s Management Discussion and Analysis filed on SEDAR (www.sedar.com) and the Company’s website (investor.swisswater.com).

For more information, please contact:

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Forward-Looking Statements

Certain statements in this press release may constitute “forward-looking” statements that involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. When used in this press release, such statements may include such words as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect management’s current expectations regarding future events and operating performance, as well as management’s current estimates, but which are based on numerous assumptions and may prove to be incorrect. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties, including, but not limited to, risks related to processing volumes and sales growth, operating results, the supply of utilities, the supply of coffee, general industry conditions, commodity price risks, technology, competition, foreign exchange rates, construction timing, costs and financing of capital projects, a potential impact of the COVID-19 pandemic, and general economic conditions. The forward-looking statements and financial outlook information contained herein are made as of the date of this press release and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, Swiss Water undertakes no obligation to publicly update or revise any such statements to reflect any change in management’s expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those described herein.