



Swiss Water Decaffeinated Coffee Inc.

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

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## **Swiss Water Reports Second Quarter Results and Completion of Second Production Line in Delta, BC**

**VANCOUVER, BC, August 9, 2023 / 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 financial results for the three and six months ended June 30, 2023.

### **2023 Second Quarter Financial and Operational Highlights**

- Swiss Water decaffeinated its last bag of coffee at its legacy production facility in Burnaby, BC in April and all production was consolidated at the Company’s new Delta, BC location. In June, the Burnaby site was returned to the landlord on the lease expiry date.
- In July, subsequent to the end of the quarter, construction of the Company’s second production line in Delta was completed and the first bag of trial coffee was decaffeinated on the new line. It is anticipated that commercial production will commence before the end of Q3 2023.
- Revenue for the second quarter was \$43.4 million, a decline of \$5.0 million, or 10%, compared to the same period in 2022. First half revenue was \$92.4 million, an increase of \$5.6 million or 6%. The decline in Q2 revenue was expected and resulted from temporary capacity constraints which negatively impacted volumes while all production was consolidated in Delta before the second new production line there was operational. The impact on the year-to-date result was partially offset by increased business during Q1 from customers in preparation for the transition.
- Volumes shipped to customers decreased by 25% for the quarter and by 5% for the six months, compared to the same periods last year. The drop in volumes was the expected result of a temporary reduction in production capacity between April and August of this year. This is the transition period between the retirement of Swiss Water’s Burnaby facility and the full and final commissioning of its second new production line in Delta. As with the revenue result, the impact on first half volumes was partially offset by customers front loading orders during the first quarter to ensure they had sufficient inventory on hand to bridge the transition. Encouragingly, North American sales volumes remained flat during the first half when compared to 2022, despite the temporary capacity constraint.
- Swiss Water recorded a net loss of \$0.4 million for the quarter and \$1.1 million for the first half, representing a decrease of \$1.8 million and \$3.9 million, respectively from the 2022 result. The decrease was due to lower sales volumes, reduced green coffee differential margins, higher finance expenses associated with elevated company borrowings, and one-



time incremental depreciation expenses associated with retired assets located at the Company's vacated facility in Burnaby, BC.

- Adjusted EBITDA was \$1.8 million for the quarter and \$6.8 million for the six months, representing a decrease of \$3.5 million and \$2.4 million, respectively from the 2022 result. The decrease was driven mainly by lower sales volumes and reduced green coffee differential margin.

*"We are pleased to report that Swiss Water's performance during the second quarter, although softer than recent periods, was in line with our expectations and that all our production assets operated at maximum capacity during the quarter. As I have previously discussed, it is important to note that from April through August we are managing capacity limitations due to the short gap between the retirement of our Burnaby production assets and the full and final commissioning of our second production line in Delta."*, said Frank Dennis, Swiss Water's President and CEO. *"As we look forward into the balance of 2023, we expect to see a recovery of volumes as we initiate commercial operations on our second production line in Delta, and overall production capacity increases. However, the temporary curtailment in volume we absorbed in Q2 will likely lead to lower earnings year-over-year when we report results for the full 2023 fiscal year. We are particularly pleased to report that our new production line was completed shortly after the end of Q2, and the first trial batch of coffee was decaffeinated before the end of July. This milestone marks the culmination of a decade long project to relocate, modernize and expand the capacity of Swiss Water's production assets. Moving forward, this extra capacity will help enable more roasters to respond to consumer demand by accelerating their migration to chemical free decaffeinated coffee."*, Dennis added.

### Operational Highlights

The following table shows changes in trading volumes during the three and six months ended June 30, 2023, compared to the same periods in 2022.

Volumes	3 months ended June 30, 2023	6 months ended June 30, 2023
Change in total volumes	-25%	-5%
<u>By customer type</u>		
Roasters	-18%	+27%
Importers	-46%	-26%
Specialty	-35%	-13%
Commercial	-17%	+1%

- Total volumes decreased by 25% in the second quarter and by 5% in the first half when compared to the same periods in 2022. In anticipation of the consolidation of all production in Delta, the Company was proactive in its communications with customers and suppliers regarding the production of coffee leading up to the Burnaby exit, during the estimated period of lower production capacity, and before the new line in Delta begins producing a commercially viable product. As a result, many of Swiss Water's customers moved orders



ahead into the first quarter to ensure they would have sufficient coffee on hand to bridge the transition. To date, this proactive communication regarding the transition period has minimized disruption to the Company's business and its customers.

- Swiss Water's largest geographical market by volume in the first half of the year continued to be the United States, followed by Canada, and international markets. By dollar value, 55% of the Company's sales were to customers in the United States, 25% were to Canadian customers, and the remaining 20% were to international markets.
- As noted, during the second quarter, Swiss Water continued construction of a second production line at its facility in Delta, BC. The preliminary cost estimate for this project was approximately \$45.0 million, plus commissioning costs of approximately \$2.0 million. During the second half of last year, the impacts of global macroeconomic pressures, including inflation, building trades disruptions, and supply chain issues, became more acute in terms of project budget and schedule. As previously disclosed, a final cost of \$53.0 million is now projected for the second production line in Delta. This revised budget factors in the realized inflationary impacts to date, and there is no change to the original commissioning budget.
- Inflationary pressure within Swiss Water's variable cost structure also remains intense and is being carefully managed in order to limit the impact on the Company's operational effectiveness and on its trading partners.

### Financial Highlights

In \$000s except per share amounts (unaudited)	3 months ended June 30		6 months ended June 30	
	2023	2022	2023	2022
Revenue	\$ 43,368	\$ 48,368	\$ 92,413	\$ 86,783
Gross profit	3,412	7,952	8,306	13,715
Operating income	76	4,416	1,500	7,296
Net (loss) income	(371)	1,460	(1,072)	2,845
Adjusted EBITDA <sup>1</sup>	1,825	5,335	6,807	9,226
Net (loss) income per share – basic <sup>2</sup>	\$ (0.04)	\$ 0.16	\$ (0.12)	\$ 0.31
Net (loss) income per share – diluted <sup>2</sup>	\$ (0.06)	\$ 0.16	\$ (0.12)	\$ 0.31

<sup>1</sup> 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.

<sup>2</sup> 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 the exercise of warrants and RSUs.

- Second quarter revenue was \$43.4 million, a decrease of \$5.0 million or 10% when compared to the same period last year. First half revenue was \$92.4 million, an increase of \$5.6 million or 6%. The decrease in Q2 revenue is the result of an expected period of reduced sales volume due to capacity limitations caused by the exit from the Burnaby site and the completion of the second production line at Delta. This was partially offset by increased volume demand from customers in the first quarter of this year. In addition, green coffee prices were lower when compared to the same periods in 2022.
- Gross profit was \$3.4 million for the quarter and \$8.3 million for the first half, a decrease of



\$4.5 million and \$5.4 million respectively, compared to the same periods in 2022. The decrease in gross profit was driven by lower sales volumes, reduced green coffee differential margins, and one-time incremental depreciation expenses of \$0.4 million for the quarter and \$2.5 million for the first half. In addition, the Company experienced some inflationary pressure on variable production costs, including natural gas and carbon, as well as freight.

- Net income was a net loss of \$0.4 million for the quarter, and \$1.1 million for the first half, a decrease of \$1.8 million and \$3.9 million respectively, compared to the same periods in 2022. The decrease was driven by the same factors that impacted gross profit, as well as an increase in finance expenses associated with the Company's borrowings. These factors were partially offset by gains on risk management activities, higher finance income, a change in the fair value of the embedded option within Swiss Water's debenture with warrants, reduced loss on foreign exchange, and lower income tax expense.
- Adjusted EBITDA was \$1.8 million for the second quarter and \$6.8 million for the first half, representing a decrease of \$3.5 million and \$2.4 million, respectively from the 2022 result. The decrease was driven mainly by lower sales volumes and reduced green coffee differential margin.

### 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 and other non-cash gains related to a remeasurement of asset retirement obligation. The Company's definition of Adjusted EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.

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,	
	2023	2022	2023	2022
Net (loss) income for the period	\$ (371)	\$ 1,460	\$ (1,072)	\$ 2,845
Income tax expense (recovery)	145	472	(71)	1,001
(Loss) income before tax	\$ (226)	\$ 1,932	\$ (1,143)	\$ 3,846
Finance income	(426)	(140)	(863)	(211)
Finance expenses	2,075	1,460	3,912	2,669
Depreciation & amortization	2,438	1,940	6,020	3,492
Unrealized gain (loss) on foreign exchange forward contracts	(176)	150	(102)	141
Fair value gain (loss) on the embedded option	(860)	-	108	-
Loss on foreign exchange	38	659	122	453
Other gains	(175)	-	(175)	-
Share-based compensation (recovery) expense	(190)	20	303	209
Impact of IFRS 16 - Leases	(673)	(686)	(1,375)	(1,373)
Adjusted EBITDA	\$ 1,825	\$ 5,335	\$ 6,807	\$ 9,226



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## 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 city of Delta, British Columbia, Canada.

## Additional Information

*A conference call to discuss Swiss Water's recent financial results will be held on **Thursday, August 10, 2023, at 10:00 am Pacific (1:00 pm Eastern)**. To access the conference call, please dial:*

- **1-888-506-0062** (toll-free) or
- **1-973-528-0011** (international);
- participant access code: **250209**.

*A replay will be available through August 25, 2023, at*

- **1-877-481-4010** (toll-free) or
- **1-919-882-2331** (international);
- passcode: **48866**.

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+ and Swiss Water's website ([investor.swisswater.com](http://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", "anticipate" 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*



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*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 and packaging materials, supply of labour force, 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 and/or other pandemics, global and local climate changes, changes in interest rates, inflation, transportation availability, 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.*