



Swiss Water Decaffeinated Coffee Inc.

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

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Swiss Water Reports Third Quarter Results and Launch of Second Line in Delta, BC

VANCOUVER, BC, November 8, 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 nine months ended September 30, 2023.

2023 Third Quarter and Nine-Month Financial, and Operational Highlights

- During the third quarter, commercial decaffeination on Swiss Water’s second production line in Delta, BC, started for the first time. This marked the completion of the consolidation of production at one site, and the end of the transition from the Company’s legacy production facility in Burnaby, BC.
- Swiss Water operated with a capacity constraint during the third quarter, and as expected, volumes shipped to customers decreased by 31% in Q3 and by 14% for the nine months, when compared to the same periods in 2022. The drop in volumes was the result of a temporary reduction in production capacity between April and August of this year. This was the transition period between the retirement of Swiss Water’s old Burnaby facility and the final commissioning of its second new decaffeination line at its Delta, BC location. The impact on year-to-date 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.
- Revenue for the third quarter and nine months ended September 30, 2023, was \$32.6 million and \$125.0 million respectively, representing a decrease of \$13.5 million for the quarter and \$7.9 million for the year-to-date, when compared to the same periods in 2022. The drop in revenue resulted from a material decline in the NY’C’ coffee commodity price and the temporary reduction in production capacity during the transition from Burnaby to Delta. The impact of these factors on nine-month revenues was partially offset by the increased volumes shipped in Q1, and a higher US dollar exchange rate this year.
- Swiss Water recorded a net loss of \$0.4 million for the third quarter and of \$1.5 million for the year-to-date representing a decline in profitability of \$0.2 million and \$4.1 million respectively, when compared to the 2022 result. The decrease was due to the lower sales volume, a reduced green coffee differential margin, and higher finance expenses associated with borrowings. The Company’s nine-month performance was primarily impacted by one-time depreciation expenses associated with retired assets located at its vacated facility in Burnaby, BC.
- Adjusted EBITDA was \$1.5 million for Q3 and \$8.3 million for the year-to-date, representing a decrease of \$2.8 million and \$5.2 million respectively, from the 2022 result. The decrease was driven mainly by the lower sales volume due to the expected capacity constraints during the transition period, as well as a reduced green coffee differential margin.



“We are pleased to report that, during the third quarter, we successfully began high-quality decaffeination on our new second line in Delta, BC. This marked the consolidation of Swiss Water’s production activities onto one site, and the final transition away from our legacy production assets in Burnaby, BC. Our sales and logistics teams performed admirably during the quarter and year-to-date as they managed the temporary reduction in capacity and the allocation of available production. The team successfully front-end loaded significant customer demand into Q1, before our Burnaby shutdown, enabling balanced customer service through Q3”, said Frank Dennis, Swiss Water’s President and CEO. “As we look forward into the fourth quarter of 2023, we expect to see a strong recovery of volumes with the additional capacity back on line within the third quarter. Initial performance of our new line has been very good and we are optimistic that we can increase the production rate of this line over the coming months. 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 nine months ended September 30, 2023, compared to the same periods in 2022.

Volumes	3 months ended September 30, 2023	9 months ended September 30, 2023
Change in total volumes	-31%	-14%
<u>By customer type</u>		
Roasters	-33%	-2%
Importers	-29%	-27%
Specialty	-40%	-22%
Commercial	-25%	-8%

- Total volumes decreased by 31% in Q3 and by 14% for the year-to-date, 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 began producing a commercially viable product. As a result, many of Swiss Water’s customers moved orders ahead into Q1 to ensure they would have sufficient coffee on hand to bridge the transition. This proactive communication regarding the transition period minimized disruption to the Company’s business and its customers during the third quarter.
- Swiss Water’s largest geographical market by volume for the year-to-date continued to be the United States, followed by Canada, and international markets. By dollar value, 51% of the Company’s sales were to customers in the United States, 28% were to Canadian customers, and the remaining 21% were to international markets.



- Inflationary pressure within Swiss Water’s variable cost structure also remained intense during both the quarter and year-to-date and was 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 September 30		9 months ended September 30	
	2023	2022	2023	2022
Revenue	\$ 32,627	\$ 46,154	\$ 125,040	\$ 132,937
Gross profit	3,576	6,614	11,882	20,329
Operating income	758	3,293	2,258	10,589
Net (loss) income	(417)	(204)	(1,489)	2,641
Adjusted EBITDA ¹	1,539	4,346	8,346	13,572
Net (loss) income per share – basic ²	\$ (0.05)	\$ (0.02)	\$ (0.16)	\$ 0.29
Net (loss) income per share – diluted ²	\$ (0.05)	\$ (0.02)	\$ (0.16)	\$ 0.29

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 the exercise of warrants and RSUs.

- Third quarter revenue was \$32.6 million, a decrease of \$13.5 million or 29%, when compared to the same period last year. Year-to-date revenue was \$125.0 million, a decrease of \$7.9 million or 6%. The decrease is the result of the expected period of reduced sales volume due to capacity limitations caused by the exit from the Burnaby site prior to the completion of the second production line at Delta. This was partially offset by increased volume demand from customers in the first quarter. In addition, green coffee prices were materially lower when compared to the same periods in 2022.
- Gross profit was \$3.6 million for the quarter and \$11.9 million for the year-to-date, a decrease of \$3.0 million and \$8.4 million respectively, compared to the same periods in 2022. The decrease was due to lower sales volume, a reduced green coffee differential margin, and one-time incremental depreciation expenses of \$2.5 million recorded during the nine-month period. In addition, the Company experienced inflationary pressure on its variable production costs, including natural gas, carbon and labour, as well as on freight and warehousing.
- Swiss Water recorded a net loss of \$0.4 million for the third quarter and of \$1.5 million for the year-to-date representing a decline in profitability of \$0.2 million and \$4.1 million respectively, when compared to the 2022 result. The decrease was due to the lower sales volume, a reduced green coffee differential margin, and higher finance expenses associated with borrowings. These negative factors were partially offset by improvements in risk management activities, revaluation of the embedded option, higher finance income, reduced loss on foreign exchange, and lower income tax expense.



- Adjusted EBITDA was \$1.5 million for the third quarter and \$8.3 million for the year-to-date, representing a decrease of \$2.8 million and \$5.2 million respectively, from the 2022 result. The decrease was driven mainly by lower sales volume and a 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 September 30		9 months ended September 30	
	2023	2022	2023	2022
Net (loss) income for the period	\$ (417)	\$ (204)	\$ (1,489)	\$ 2,641
Income tax expense (recovery)	(363)	(52)	(434)	949
(Loss) income before tax	\$ (780)	\$ (256)	\$ (1,923)	\$ 3,590
Finance income	(274)	(124)	(1,137)	(335)
Finance expenses	2,027	1,321	5,939	3,990
Depreciation & amortization	1,416	1,840	7,436	5,332
Unrealized loss on foreign exchange forward contracts	191	699	89	840
Fair value gain on the embedded option	(310)	-	(202)	-
Other gains	-	-	(175)	-
(Gain) loss on foreign exchange	(265)	1,396	(143)	1,849
Share-based compensation	164	170	467	379
Impact of IFRS 16 - Leases	(630)	(700)	(2,005)	(2,073)
Adjusted EBITDA	\$ 1,539	\$ 4,346	\$ 8,346	\$ 13,572

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.



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Additional Information

A conference call to discuss Swiss Water's recent financial results will be held on **Thursday, November 9, 2023, at 12:00 pm Pacific (3:00 pm Eastern)**. To access the conference call, please dial:

- **1-888-506-0062** (toll-free) or
- **1-973-528-0011** (international);
- participant access code: **338784**

A replay will be available through November 23, 2023, at

- 1-877-481-4010 (toll-free) or
- 1-919-882-2331 (international);
- replay passcode: 49423

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).

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 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



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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.