



**Swiss Water Decaffeinated Coffee Inc.**

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

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## **Swiss Water Reports 2024 First Quarter Earnings**

**VANCOUVER, BC, May 8, 2024 / 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 months ended March 31, 2024.

### **First Quarter Financial and Operational Highlights**

- Since completing the commissioning process during the third quarter of last year, the Company has been decaffeinating commercial grade coffee on its new second production line in Delta. During the first quarter of this year, processing volumes and quality metrics on the new line continued to increase, enabling the delivery of forecasted volumes.
- Inventory levels fell during the first quarter of 2024 primarily due to the consumption of the last remaining coffee inventories Swiss Water had built up to bridge the production constraints experienced during the transition from Burnaby and the consolidation of all processing in Delta. This provided an opportunity for Swiss Water to pay down debt and accumulate cash deposits while leaving adequate inventory on hand to support its operations and near-term growth.
- First quarter revenue of \$38.7 million, was \$10.3 million lower than in the same period in 2023. This was an expected result of a normalization of order patterns, compared to an extraordinary period of volume loading during Q1 of last year. As noted, last year many customers moved orders forward into the first quarter to ensure they would have sufficient inventory to bridge the temporary capacity constraint during Swiss Water's transition out of Burnaby.
- First quarter gross profit was \$5.1 million, an increase of \$0.2 million when compared to Q1 of 2023. The increase is attributed to the cost savings and efficiencies generated from a consolidation of all Swiss Water production and operations at its facility in Delta, BC. The positive impact of a \$2.1 million one-time decrease in year-over-year depreciation expenses on gross profit was largely offset by the lower sales volumes and a decline in green coffee differential margin during the quarter.
- First quarter adjusted EBITDA<sup>1</sup> was \$2.8 million, a decrease of \$2.2 million from the Q1 2023 result. As with revenues, the difference was an expected result of the lower year-over-year sales volumes, as well as a lower green coffee differential margin.
- Although total sales volume for the quarter decreased by 18%, when compared to the first quarter of last year, the difference was expected. Volumes reported in Q1 of 2023 were elevated well above normal levels. This was due to the proactive front-loading of customer orders in anticipation of the temporary disruption of production capacity during the second and third quarters of 2023 as the Company exited its legacy facility in Burnaby, BC, prior to the completion of its new line in Delta.

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<sup>1</sup> Adjusted EBITDA is defined in the 'Non-IFRS Measures' section of the MD&A and is a "Non-IFRS Financial Measure" as defined by CSA Staff Notice 52-306.



*“We continued to see strong demand for our chemical-free decaffeinated coffee offerings during the first quarter of this year. However, when comparing quarterly results for 2024 with the same periods last year, it is important to note that the distribution of quarterly sales volumes in 2023 did not follow normal seasonality patterns. In particular, Swiss Water reported much stronger than normal volume growth and financial results during the first quarter of 2023. This was mainly due to the front loading of customer orders in anticipation of the temporary production constraints resulting from our exit from our legacy Burnaby site during the second quarter, prior to the full commissioning of our second new decaffeination line at our Delta, BC facility. With this context in mind, the year-over-year decline in first quarter volumes this year was fully expected, when compared with the extraordinarily high volume we recorded in Q1 of last year”, said Frank Dennis, Swiss Water’s President and CEO. “Looking forward, interest in chemical-free decaffeinated coffee is intensifying and we are optimistic about the future. Swiss Water’s production activities are now fully consolidated onto one site, and we expect that this will enable us to realize further operational efficiencies through the balance of this year. The performance of our new Delta line 2 has been very good and we have adequate unused capacity to service our medium-term growth ambitions. However, despite the underlying strength of our business, uncertainty persists. Geopolitical and economic factors, particularly inflation, are continuing to disrupt the normal business order around the world. And, after a period of relatively stable coffee prices during the second half of 2023, the NY’C’ started to increase sharply toward the end of the first quarter. If futures prices remain at elevated levels, this may have a negative impact on demand and thus our growth in 2024.”, Dennis added.*

### Operational Highlights

The following table shows changes in sales volumes during the first quarter of 2024 compared to the same period in 2023.

Volumes	3 months ended March 31, 2024	3 months ended March 31, 2023
Change in total volumes	-18%	+21%
<u>By customer type</u>		
Roasters	-13%	+44%
Importers	-25%	0%
Specialty	-25%	+16%
Commercial	-17%	+24%

- Late in the third quarter of 2023, commercial decaffeination on Swiss Water’s new second line in Delta, BC began. Production volumes and quality metrics on the new line continued to increase during the first quarter of this year. This enabled the delivery of forecasted volumes and the successful accommodation of a scheduled 2-week maintenance shut-down on Delta Line 1.
- Total processing volume decreased by 18% when compared to the first quarter of 2023. The year-over-year difference was expected. Volumes reported in Q1 last year were elevated above normal levels due to the pro-active front loading of customer orders ahead of the anticipated capacity limitations that the Company experienced during the second and third quarters of 2023. With all production consolidated in Delta and both decaffeination lines running 24/7, except for planned maintenance, the Company was not capacity constrained during the first quarter of 2024.



- As expected, inventory levels fell during the first quarter due to the consumption of the last remaining coffee inventories Swiss Water had built up to bridge the production constraints experienced during the transition from Burnaby and the consolidation of all processing in Delta.
- Swiss Water remains focused on optimizing inventory levels and proactively managing its working capital commitments. The Company is currently well positioned with green coffee inventory and can react to short-term demand increases in most coffee origins. Although Swiss Water experienced a reduction in the disruption to green coffee deliveries and supply chain bottlenecks last year and through Q1 of this year, there are signs that rising coffee prices may negatively impact the efficient flow of coffee from some growing regions going forward.
- The NY'C' coffee commodity price for Arabica coffee remained relatively high during the first quarter. Spot availability of coffees continued to fall and pressure on the futures market intensified in late March of this year. Moving forward, the impact of this elevated coffee market will depend on the futures market remaining at, or below, the current level for a sustained period.
- The impact of last year's consolidation of operations at one location generated some efficiencies from reduced utilities consumption, staffing, and maintenance during the first quarter. However, the Company continued to experience persistent inflationary pressures within other components of its variable cost structure. These include higher costs for packaging, shipping and labour. To help maintain margins, Swiss Water increased its process price rates toward the end of the fourth quarter of 2021. Since then, The Company has worked diligently to maximize efficiencies across its value chain to limit the need for further price increases.

### Financial Highlights

The following table shows select financial information related to the first quarter of 2024, as compared to the first quarter of 2023:

In \$000s except per share amounts (unaudited)	3 months ended March 31,	
	2024	2023
Revenue	\$ 38,730	\$ 49,045
Gross profit	5,115	4,894
Operating income	1,364	1,424
Net loss	(900)	(701)
Adjusted EBITDA <sup>1</sup>	2,788	4,982
Net loss per share – basic <sup>2</sup>	\$ (0.10)	\$ (0.08)
Net loss per share – diluted <sup>2</sup>	\$ (0.10)	\$ (0.08)

<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.

- Revenue for the three months ended March 31, 2024, was \$38.7 million, down by \$10.3 million, or 21%, when compared to the first quarter of last year. As with volumes, the drop in revenue was an expected result of a normalization of order patterns, compared to a period of volume loading during Q1 of last year. As previously noted, many customers moved orders forward in anticipation of capacity constraints caused by the transition of production out of Burnaby, prior to the full commissioning of Delta Line 2.



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- Swiss Water's largest geographical market by volume in Q1 was the United States, followed by Canada and international markets. By dollar value, 49% of sales were to customers in the United States, 29% were to Canadian customers, and the remaining 22% were to international customers.
- In January of 2023, Swiss Water reduced the estimated useful life of the non-salvaged assets at its legacy production facility in Burnaby, by 12 years. The useful life of these assets was re-aligned against the final production date at the site, which was in April 2023. At the time of the change in estimate, these assets had a carrying value of approximately \$3.0 million. The financial impact of the change in estimate was a one-time, incremental depreciation expense included in cost of sales of \$2.1 million for Q1 of last year. There was no such change in estimate during the three months ended March 31, 2024.
- First quarter gross profit was \$5.1 million, an increase of \$0.2 million over Q1 of 2023. The increase was largely due to the cost savings and efficiencies generated from the consolidation of all Swiss Water production and other operations at one location. This has generated savings from reduced building maintenance, utilities consumption, staffing, and transportation between locations. The positive impact of a \$2.1 million one-time decrease in year-over-year depreciation expenses on gross profit was largely offset by the lower sales volumes and a decline in green coffee differential margin during the quarter.
- For the first quarter, Swiss Water recorded a net loss of \$0.9 million, compared to a net loss of \$0.7 million in Q1 of last year. The increase in net loss was driven by higher interest expenses on construction loans and increased mark-to-market losses on risk management activities. Higher operating expenses, mainly due to increases in headcount and wages, also had a negative impact on profitability. These factors were partially offset by the cost benefits of consolidation at one location and reduced non-cash losses on the revaluation of the Company's embedded option, as well as gains on foreign exchange.
- First quarter adjusted EBITDA<sup>2</sup> was \$2.8 million, a decrease of \$2.2 million from the Q1 2023 result. Again, the first quarter decrease was primarily driven by the lower sale volumes and reduced green coffee differential margin.
- Inventory levels fell during the first quarter of 2024 primarily due to the consumption of the last remaining coffee inventories Swiss Water had built up to bridge the production constraints experienced during the transition from Burnaby and the consolidation of all processing in Delta. As a result, inventories closed the first quarter of this year at \$25.4 million, down from \$30.4 million at December 31, 2023. This provided an opportunity for Swiss Water to pay down debt and accumulate cash deposits, while leaving adequate inventory on hand to support its operations and near-term growth. In Q4 2024 Swiss Water is scheduled to fully repay a Debenture with Warrants, held by Mill Road Capital (MRC). It is anticipated that the repayment of this debt will primarily be funded using, but not limited to, available cash reserves and proceeds from operations, supplemented by incremental borrowings on existing debt facilities, as needed.

### **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

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<sup>2</sup> Adjusted EBITDA is defined in the 'Non-IFRS Measures' section of the MD&A and is a "Non-IFRS Financial Measure" as defined by CSA Staff Notice 52-306.



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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.

The following table provides a reconciliation of net income, an IFRS measure, to Adjusted EBITDA as follows:

In \$000s (unaudited)	3 months ended March 31,	
	2024	2023
Loss for the period	\$ (900)	\$ (701)
Income tax recovery	(224)	(216)
Loss before tax	\$ (1,124)	\$ (917)
Finance income	(460)	(437)
Finance expenses	2,288	1,837
Depreciation & amortization	1,716	3,582
Unrealized (gain) loss on foreign exchange	(38)	74
Loss on fair value of embedded option	891	968
(Gain) loss on foreign exchange	(380)	84
Share-based compensation	535	493
Impact of IFRS 16 - Leases	(640)	(702)
Adjusted EBITDA	\$ 2,788	\$ 4,982

### 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 chemical 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 Delta, British Columbia, Canada.

### Additional Information

*A conference call to discuss Swiss Water's recent financial results will be held on **Thursday, May 9, 2024, at 1:00 pm Pacific (4:00 pm Eastern)**. To access the conference call, please dial:*

- **1-888-506-0062** (toll-free) or
- **1-973-528-0011** (international);
- participant access code: **354255**

*A replay will be available through May 23, 2024, at*

- **1-877-481-4010** (toll-free) or
- **1-919-882-2331** (international);
- replay passcode: **50445**

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)).



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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 that 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 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.*