



Swiss Water Decaffeinated Coffee Inc.

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

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Swiss Water Reports Second Quarter Results

VANCOUVER, BC, August 7, 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 and six months ended June 30, 2024.

Second 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, BC. During the first half of this year, processing volumes and quality metrics on the new line continued to increase, enabling the delivery of forecasted volumes, and significant production efficiencies.
- Total sales volumes for the second quarter increased by 12%, while first-half volumes decreased by 5%, when compared to the same periods in 2023. The drop in first-half volume was expected because last year’s volume for the period was abnormally high due to the planned front loading of customer orders in anticipation of the capacity constraint Swiss Water experienced during the summer of 2023. This was due to the shutdown of the Company’s legacy production facility in Burnaby prior to the full commissioning of its new line in Delta.
- Gross profit for the second quarter was \$7.7 million, an increase of \$4.3 million over Q2 of last year. For the first half, gross profit of \$12.8 million was up by \$4.5 million, when compared to the first six months of last year. Gross profit percentage was 18% for the quarter, compared to 8% in Q2 of 2023. For the first half, gross profit percentage was 16%, up from 9% last year.
- Second quarter net income was \$0.9 million, up by \$1.3 million from Q2 last year, when a loss was reported. First-half net income was \$0.05 million, a \$1.1 million increase from the 2023 level. The losses reported in both periods last year were, largely due to additional one-time costs related to Swiss Water’s exit from its legacy Burnaby facility and consolidation of resources in Delta.
- Adjusted EBITDA¹ for the second quarter was \$4.5 million, up by \$2.7 million from the 2023 level. First-half adjusted EBITDA was \$7.3 million, an increase of \$0.5 million over last year’s result.
- Swiss Water continued to manage its inventory down during the first half of 2024, enabling the reduction of debt and further accumulation of cash deposits. Adequate inventory remains on hand to support the Company’s operations and near-term growth.
- In the fourth quarter of this year, Swiss Water is scheduled to fully repay the \$15.8 million Debenture with Warrants held by Mill Road Capital (“MRC”). With \$18.4 million in cash reserves at the end of Q2, the Company anticipates that the repayment will primarily be funded using available cash reserves and

¹ 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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proceeds from operations, supplemented by incremental borrowings on its existing debt facilities if necessary.

“We are pleased to report that we delivered strong volume growth and profitability during the second quarter of this year. Total volume grew by 12%, and Adjusted EBITDA was one of our highest on record”, 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. However, the NY’C’ returned close to historic highs during the second quarter of this year. If futures prices remain at elevated levels, this may have a negative effect on demand and thus our growth in 2024.”, Dennis added.

Operational Highlights

The following table shows changes in sales volumes during the three and six months ended June 30, 2024 compared to the same periods in 2023.

Volumes	3 months ended June 30, 2024	6 months ended June 30, 2024
Change in total volumes	+12%	-5%
<u>By customer type</u>		
Roasters	-4%	-9%
Importers	+40%	+1%
Specialty	+32%	-2%
Commercial	-5%	-11%

- Total processing volumes for the second quarter increased by 12%, when compared to Q2 of last year, while first-half volumes were down by 5%. The difference in six-month volumes was expected because last year many customers moved their orders forward into the first quarter in anticipation of the capacity constraints Swiss Water experienced during the summer of 2023. With all production now consolidated in Delta and both decaffeination lines running 24/7, except for planned maintenance, the Company was not capacity constrained during the first half of this year.
- Inventories were managed down during the first half 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 consolidation of all processing in Delta.
- Swiss Water remains focused on optimizing inventory levels and proactively managing its working capital commitments. Although the Company saw a welcome reduction in the disruption to green coffee deliveries and supply chain bottlenecks during 2023, exports from origin countries started to slow down once again during the second quarter. Swiss Water is now seeing indications that rising coffee prices are negatively impacting the efficient flow of coffee from some growing regions. This supply pressure has contributed to a reduction in inventory levels which, although sufficient to support the Company’s current operations and near-term growth, are now slightly below historical positions.
- The NY’C’ coffee futures price for Arabica coffee remained volatile during the second quarter, peaking at US\$2.48/lb in mid-April. Spot availability of coffees continued to fall and pressure on the futures



market intensified during the quarter. Moving forward, the effect of the elevated coffee market may soften consumer demand and thus the Company’s volumes shipped to roasters.

- Last year’s consolidation of all operations at one location generated efficiencies from reduced utilities consumption, staffing, and maintenance during the second quarter and first half. 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 last increased process price rates toward the end of the fourth quarter of 2022. Since then, the Company has worked diligently to maximize efficiencies across its value chain and this limited the need for further price increases.

Financial Highlights

The following table shows select financial information related to the three and six months ended June 30, 2024 compared to the same periods in 2023:

In \$000s except per share amounts (unaudited)	3 months ended June 30		6 months ended June 30	
	2024	2023	2024	2023
Revenue	\$ 43,372	\$ 43,368	\$ 82,102	\$ 92,413
Gross profit	7,665	3,412	12,780	8,306
Operating income	3,748	76	5,112	1,500
Net income (loss)	947	(371)	47	(1,072)
Adjusted EBITDA ¹	4,484	1,825	7,272	6,807
Net income (loss) per share – basic ²	\$ 0.10	\$ (0.04)	\$ 0.01	\$ (0.12)
Net income (loss) per share – diluted ²	\$ 0.07	\$ (0.06)	\$ 0.01	\$ (0.12)

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.

- Second quarter revenue of \$43.4 million was unchanged from Q2 of last year. However, at \$82.1 million, first-half revenue was down by \$10.3 million, when compared to the first half of 2023. The drop in six-month revenue was an expected result of a normalization of order patterns, compared to the period of volume loading and high sales during the first half of last year. As previously noted, last year many customers moved orders forward in anticipation of the capacity constraint caused by Swiss Water’s transition of production out of its legacy Burnaby facility prior to the full commissioning of its second decaffeination line in Delta. Furthermore, first-half revenue this year was negatively impacted by a combination of higher toll sales, which do not generate green coffee revenue, and lower coffee quality differentials.
- Swiss Water’s largest geographical market by volume in the first half was the United States, followed by Canada and international markets. By dollar value, 50% of its sales were to customers in the United States, 27% were to Canadian customers, and the remaining 23% 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



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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 were a one-time incremental depreciation expense of \$0.4 million in the second quarter and \$2.5 million in the first half of last year. There were no such changes in estimate this year as the Company had fully exited the Burnaby location in June 2023.

- Gross profit for the second quarter was \$7.7 million, an increase of \$4.3 million over Q2 of last year. For the first half, gross profit of \$12.8 million was up by \$4.5 million. Gross profit percentage was 18% for the quarter, compared to 8% in Q2 of 2023. For the first half, gross profit percentage was 16%, up from 9% last year. The second quarter increase was driven by cost savings associated with the consolidation of operations at one location, lower utility rates, higher green coffee differential margins and the \$0.4 million decrease in one-time depreciation. For the first half, the increase was also driven by the same factors, as well as a \$2.5 million decrease in one-time depreciation expense. However, during the first half, these positive factors were partially offset by the lower year-over year sales volume and a decline in green coffee differential margins.
- Net income was \$0.9 million for the second quarter, up by \$1.3 million from Q2 last year. First-half net income was \$0.05 million, a \$1.1 million increase from the 2023 level. In both periods last year, the Company reported a loss, largely due to one-time costs related to the shutdown of its legacy Burnaby facility and consolidation of all production in Delta. The improvement this year was also driven by the same factors influencing gross profit, as well as gains on foreign exchange. These were partially offset by the negative impact of a revaluation of the Company's embedded option, as well as higher interest expenses on its construction loans and increased mark-to-market losses on its risk management activities. Higher operating expenses due to planned increases in headcount and wages, and increased professional fees also had a negative impact on net income.
- Second Quarter Adjusted EBITDA² was \$4.5 million, up by \$2.7 million over 2023. For the first half Adjusted EBITDA was \$7.3 million, a \$0.5 million year-over-year improvement. The increases in Adjusted EBITDA were primarily driven by the factors influencing gross profit, as described above, partially offset by the higher operating expenses.
- Inventory levels were managed down during the first half, dropping from \$30.4 million at December 31, 2023 to \$28.8 million at the end of the second quarter. The reduction was partially 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. Shipping delays affecting freight passing through the Panama Canal to Vancouver also had an impact on the Company's coffee inventory levels. The resulting reduction in working capital commitments provided opportunities 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 the fourth quarter of this year, the Company is scheduled to fully repay the \$15.8 million (principal and accrued interest) Debenture with Warrants held by Mill Road Capital ("MRC"). This repayment will further reduce its overall debt and future interest expenses. With \$18.4 million in cash reserves at the end of Q2, the Company anticipates that the repayment will primarily be funded with available cash

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reserves and proceeds from operations. These funds can be supplemented by incremental borrowings on its 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 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 June 30,		6 months ended June 30,	
	2024	2023	2024	2023
Net income (loss) for the period	\$ 947	\$ (371)	\$ 47	\$ (1,072)
Income tax expense (recovery)	724	145	500	(71)
Income (loss) before tax	\$ 1,671	\$ (226)	\$ 547	\$ (1,143)
Finance income	(446)	(426)	(906)	(863)
Finance expenses	2,293	2,075	4,581	3,912
Depreciation & amortization	1,679	2,438	3,395	6,020
Unrealized loss (gain) on foreign exchange forward contracts	26	(176)	(12)	(102)
Fair value (gain) loss on the embedded option	(83)	(860)	808	108
(Gain) loss on foreign exchange	(206)	38	(586)	122
Other gains	-	(175)	-	(175)
Share-based compensation expense (recovery)	189	(190)	724	303
Impact of IFRS 16 - Leases	(639)	(673)	(1,279)	(1,375)
Adjusted EBITDA	\$ 4,484	\$ 1,825	\$ 7,272	\$ 6,807

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.



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Additional Information

A conference call to discuss Swiss Water's recent financial results will be held on **Thursday, August 8, 2024, at 1:00 pm Pacific (4:00 pm Eastern)**. To access the conference call, please dial:

- **1-800-715-9871** (toll-free) or
- **1-646-307-1963** (international);
- Listeners will be prompted to provide the **Company name** as a **passcode**.

A replay will be available through Aug 22, 2024, at

- **1-877-481-4010** (toll-free) or
- **1-919-882-2331** (international); replay passcode: 50934

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 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 any 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.