



Swiss Water Decaffeinated Coffee Inc.

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

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Swiss Water Reports Third Quarter Results

VANCOUVER, BC, November 5, 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 nine months ended September 30, 2024.

Third Quarter Financial and Operational Highlights

- Total sales volumes increased by 27% in the third quarter and by 4% for the year-to-date, when compared to the same periods last year. The year-over-year differences were expected, as the volumes reported in Q3 last year were lower than normal due to the capacity constraints experienced during the period as Swiss Water exited its legacy production facility in Burnaby BC and consolidated all operations in Delta. BC.
- Third quarter gross profit was \$6.4 million, up by \$2.9 million, when compared to Q3 of last year. For the nine months, gross profit was \$19.2 million, up by \$7.3 million from the same period in 2023. Gross margin percentage was 15% for the quarter and 16% for the year-to-date, compared to 11% and 10% respectively for the same periods last year. The improvements were driven by higher processing volumes, cost savings associated with the consolidation of operations at one location, lower utility rates, and a decrease in one-time depreciation expenses. In 2023, Swiss Water incurred a \$2.5 million one-time depreciation cost related to the shuttering of its legacy Burnaby facility.
- Net losses for the three and nine months ended September 30, 2024, were \$0.8 million and \$0.7 million respectively, compared to net losses of \$0.4 million and \$1.5 million for the same periods in 2023. Despite this year’s improved gross margin, higher interest expenses on construction loans and increased mark-to-market losses on risk management activities offset much of the benefit. Non-cash losses on the revaluation of the Company’s embedded option, and mark-to-market adjustments on stock-based compensation also impacted profitability.
- Adjusted EBITDA for the three and nine months ended September 30, 2024, was \$2.2 million and \$9.4 million respectively, which represents a \$0.6 million increase for the quarter and a \$1.1 million increase for the year-to-date, when compared to the same periods in 2023. The increases in adjusted EBITDA were primarily due to the same factors driving higher gross profit. These positive impacts were partially offset by increased losses on risk management activities as a result of the near record high coffee futures prices experienced this year.
- Subsequent to the end of Q3, on October 31, 2024, Swiss Water fully repaid the debenture with warrants, which was due to Mill Road Capital (“MRC”). The total repayment of \$15.9 million consisted of \$15.0 million of principal and \$0.9 million of accrued interest. Following this payment, all obligations, duties and responsibilities of the parties to the debenture were terminated. The maturity of the debenture did not affect the obligations of the Company or the rights of MRC under their existing warrant agreement.



“We are pleased to report that we delivered volume growth and improved profitability during the third quarter. Total volume grew by 27%, and adjusted EBITDA increased by 40%, when compared to Q3 last year”, said Frank Dennis, Swiss Water’s President and CEO. “Looking forward, interest in chemical-free decaffeinated coffee remains high and we are optimistic about the future. However, the NY’C’ coffee commodity price remained close to an historic peak during the third quarter and evidence is starting to emerge that this is negatively impacting consumer consumption of coffee, roaster demand and importer inventories. If futures prices remain at elevated levels and backwardated, this may have a negative impact on our volume growth in 2024 and into next year.”, Dennis added.

Operational Highlights

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

Volumes	3 months ended September 30, 2024	9 months ended September 30, 2024
Change in total volumes	+27%	+4%
<u>By customer type</u>		
Roasters	+40%	+3%
Importers	+13%	+5%
Specialty	+7%	+1%
Commercial	+47%	+6%

- Total sales volumes increased by 27% for the quarter and by 4% for the year-to-date, when compared to the same periods in 2023. The year-over-year differences were expected, as the volumes reported in Q3 last year were lower than normal due to capacity constraints related to the Swiss Water’s exit from its legacy Burnaby, BC production facility. With all production consolidated in Delta and both decaffeination lines there running 24/7, except for planned maintenance, the Company was not capacity constrained during the first nine months of this year and has returned to a more normal distribution of sales.
- The NY’C’ coffee futures price for Arabica coffee remained volatile during the third quarter, peaking at US\$2.74/lb in late September. Spot availability of coffees remains very low and pressure on the futures market intensified during Q3. Moving forward, the effect of the elevated coffee market may soften consumer demand and thus the volumes Swiss Water ships to roasters.
- Shipping delays affecting freight passing through the Panama Canal slowed the arrival of coffee into Vancouver throughout the first nine months of this year. To offset the risk of delayed deliveries impacting Swiss Water’s ability to meet its commitments to customers, the Company started to increase its coffee inventories from some origins during the third quarter. As a result, when combined with the effect of a rising NY’C’, its closing third quarter inventory value rose to \$38.0 million from \$28.8 million at the end of the second quarter. At the current level, the Company has sufficient inventory on hand to support its operations and near-term growth.



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Last year’s consolidation of Swiss Water’s operations at a single location generated efficiencies from reduced utilities consumption, staffing, and maintenance during the third quarter and first nine months of this year. However, the Company continued to experience inflationary pressures within other components of its variable cost structure. These include higher costs for packaging, shipping, and labour. Swiss Water has worked diligently to maximize efficiencies across its value chain to limit the need for price increases.

Financial Highlights

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

In \$000s except per share amounts (unaudited)	3 months ended September 30		9 months ended September 30	
	2024	2023	2024	2023
Revenue	\$ 41,778	\$ 32,627	\$ 123,880	\$ 125,040
Gross profit	6,438	3,576	19,216	11,882
Operating income	2,780	758	7,892	2,258
Net loss	(791)	(417)	(744)	(1,489)
Adjusted EBITDA ¹	2,161	1,539	9,433	8,345
Net loss per share – basic ²	\$ (0.08)	\$ (0.05)	\$ (0.08)	\$ (0.16)
Net loss per share – diluted ²	\$ (0.08)	\$ (0.05)	\$ (0.08)	\$ (0.16)

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.

- Revenue for the three and nine months ended September 30, 2024, was \$41.8 million and \$123.9 million respectively, which represents a \$9.2 million increase in the third quarter and a \$1.2 million decrease for the year-to-date, when compared to the same periods in 2023. The Q3 increase was driven by increased volume, which grew by 27%, when compared to the third quarter last year. The year-to-date revenue decrease was mainly due to changes in the Company’s sales mix which comprised a higher proportion of toll sales, which do not generate green coffee revenue.
- Swiss Water’s largest geographical market by volume in the third quarter was the United States, followed by Canada and international markets. By dollar value, 49% of the Company’s sales were to customers in the United States, 26% were to Canadian customers, and the remaining 25% 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 of \$2.5 million for the nine months ended September 30, 2023. There was no such change in estimate during the comparable period this year, as Swiss Water had fully exited the Burnaby location in June 2023.



- Gross profit for the three and nine months ended September 30, 2024, was \$6.4 million and \$19.2 million respectively, which represents a \$2.9 million increase for the quarter and a \$7.3 million increase for the year-to-date, when compared to the same periods last year. The gross margin percentage was 15% for the quarter and 16% for the nine months, compared to 11% and 10% respectively for the same periods in 2023. The improvements were driven by higher processing volumes, cost savings associated with the consolidation of operations at one location, lower utility rates, and the \$2.5 million decrease in one-time depreciation expense. These positive factors were partially offset by increased operating expenses associated with planned headcount and wage increases, higher professional fees, and increased stock-based compensation due to an increase in Swiss Water's share price.
- The Company recorded a net loss of \$0.8 million for the third quarter and \$0.7 million for the nine months, compared to net losses of \$0.4 million and \$1.5 million respectively for the same periods in 2023. Last year, the reported losses were largely due to additional one-time costs related to Swiss Water's exit from its legacy production facility in Burnaby. This year, despite a much improved gross margin, higher interest expenses on construction loans and increased mark-to-market losses on risk management activities offset much of the benefit. Non-cash losses on the revaluation of the Company's embedded option, and mark-to-market adjustments on stock-based compensation also impacted profitability.
- Adjusted EBITDA for the three and nine months ended September 30, 2024, was \$2.2 million and \$9.4 million respectively, which represents a \$0.6 million increase for the quarter and a \$1.1 million increase for the year-to-date, when compared to the same periods in 2023. The increase in adjusted EBITDA was primarily driven by the same factors influencing gross profit. These positive impacts were partially offset by higher operating expenses and increased losses on risk management activities as a result of the near record high coffee futures prices experienced this year.
- Subsequent to the end of the third quarter, on October 31, 2024, the Company fully repaid the debenture with warrants, which was due to Mill Road Capital ("MRC"). The total repayment of \$15.9 million consisted of \$15.0 million of principal and \$0.9 million of accrued interest. Following this payment, all obligations, duties and responsibilities of the parties to the debenture were terminated. The maturity of the debenture did not affect the obligations of the Company or the rights of MRC under their existing warrant agreement.

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.



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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	
	2024	2023	2024	2023
Net loss for the period	\$ (791)	\$ (417)	\$ (744)	\$ (1,489)
Income tax (recovery) expense	(309)	(363)	191	(434)
Loss before tax	\$ (1,100)	\$ (780)	\$ (553)	\$ (1,923)
Finance income	(509)	(274)	(1,415)	(1,137)
Finance expenses	2,294	2,027	6,875	5,939
Depreciation & amortization	1,765	1,416	5,160	7,436
Unrealized (gain) loss on foreign exchange forward contracts	(25)	191	(37)	89
Fair value (gain) loss on the embedded option	(144)	(310)	664	(202)
Loss (gain) on foreign exchange	269	(265)	(317)	(143)
Other gains	-	-	-	(175)
Share-based compensation	251	164	975	467
Impact of IFRS 16 - Leases	(640)	(630)	(1,919)	(2,005)
Adjusted EBITDA	\$ 2,161	\$ 1,539	\$ 9,433	\$ 8,346

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 **Wednesday, November 6, 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);
- Listeners will be prompted to provide **an access code: 414738**. If a listener does not have this code, they can reference the **Company name** as an alternative **passcode**.

A replay will be available through November 20, 2024, at

- **1-877-481-4010** (toll-free) or
- **1-919-882-2331** (international); replay passcode: 51389

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).



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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.