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Swiss Water Decaffeinated Coffee Inc. (SWP.TO-TSX)

SWP.TO: Solid 2Q25 Customer Growth, 1H Volumes Up Despite Volatile Market Conditions

Despite a volatile price environment, SWP's processed volumes were stable in 2Q25, which we believe underscores the appeal of the company's natural decaffeination process, benefits of SWP's strategy to build awareness in new markets and inventory strategies. The company expects industry related volatility and hedging impact will be temporary and reverse over time. SWP also remains focused on optimizing its operating performance & financial flexibility.

Current Price (8/12/25) C\$4.30
Valuation C\$6.00

OUTLOOK

SWP recently purchased and canceled an outstanding warrant entitling Mill Road Capital to acquire up to 2.25m shares. SWP also amended its revolving credit facility, increasing liquidity, extending terms and obtaining a new \$25m revolving credit facility with a new bank, Rabobank. These initiatives strengthened SWP's balance sheet & enhance its financial flexibility. We believe this will enhance the company's ability to navigate potential industry challenges amid the unclear tariff and economic environment. We also believe the company's strategy to expand its geographic reach and customer base is yielding strong results, with growth in new markets for SWP expected to continue.

SUMMARY DATA C\$

52-Week High \$4.64
52-Week Low \$2.60
One-Year Return (%) 26
Beta 1.22
Average Daily Volume (sh) 14,400

Shares Outstanding (mil) 10
Market Capitalization (\$mil) \$40
Short Interest Ratio (days) 1
Institutional Ownership (%) N/A
Insider Ownership (%) N/A

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS N/A
P/E using 2025 Estimate N/A
P/E using 2026 Estimate N/A

Type of Stock
Industry

Small-Value
N/A

ZACKS ESTIMATES

Revenue

(in millions of C\$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	38 A	48 A	46 A	44 A	177 A
2023	49 A	43 A	33 A	41 A	166 A
2024	39 A	43 A	42 A	49 A	173 A
2025	62 A	68 A	44 E	44 E	218 E

Loss/share or EPS (C\$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	\$0.15 A	\$0.16 A	-\$0.02 A	-\$0.03 A	\$0.26 A
2023	-\$0.08 A	-\$0.06 A	-\$0.05 A	\$0.10 A	-\$0.06 A
2024	-\$0.10 A	\$0.07 A	-\$0.08 A	\$0.21 A	\$0.13 A
2025	-\$0.06 A	-\$0.10 A	-\$0.06 E	\$0.02 E	-\$0.20 E

Qs might not sum due to rounding, shr count 1Q25 adj FD

Disclosure page 13

RISING COFFEE PRICES, FX & HEDGING MASK SOLID 2Q25 CUSTOMER GROWTH

Despite volatile market conditions, SWP's 2Q25 processed volumes were stable

We view Swiss Water Decaffeinated Coffee Inc.'s (OTC:SWSSF, TSX: SWP) 2Q25 results, reported last week, as solid against rising coffee prices, the uncertain industry backdrop and adjusting for the impact of FX and hedging. The company is a leading specialty coffee company and premium green coffee decaffeinator producing chemical-free decaffeinated coffee.

The coffee futures contract is the global benchmark for Arabica coffee. The NY'C' coffee futures price for Arabica coffee fluctuated considerably during the quarter, peaking at US\$4.10/lb in April 2025. Coffee futures price for Arabica coffee have been volatile for a while, signaling potential increases in coffee prices, while prices in effect have already increased. Factors impacting volatility include crop harvests, recession concerns and the geopolitical backdrop. The latter includes not only the potential threat of disrupted trade patterns among trading partners including the U.S. and Canada, but shipping and distribution disruptions, as well as overall impact to the general economy and FX rates. Futures contract prices are at their highest levels since the early 1970s. The company is managing risk with the view that NY'C' volatility will persist throughout 2025 and potentially normalize in 2026. SWP uses hedging to help smooth commodity price volatility.

Coffee Futures



Source: Yahoo Finance

Based on the company's experience, when the NY'C' trends upward, SWP's customers generally tend to work through their inventories rather than build inventories. Conversely, when the NY'C' is in a sustained period of decline, customers tend to build inventories. Layering on the current uncertainty around tariffs and their potential impact on trade and the economy adds further complexity to coffee prices and purchasing and inventory decisions.

Volatility of the NY'C' impacts SWP's volume shipments, revenues, cost of sales and working capital needs. Despite the volatility, SWP's processed volumes were relatively stable in 2Q25 compared to 2Q24. We believe this underscores the appeal of the company's natural decaffeination process, benefits of SWP's strategy to build awareness in new markets and inventory planning. Although orders from some U.S. customers began to slow during 2Q25, on the overall aggregate stable volumes, revenue reached C\$67.7 million, up 56% year-over-year. We modeled revenue of C\$43.8 million.

Cost of sales was C\$62.4 million, up 75% year-over-year, reflecting prices and a shift in the product mix, as well as some FX and hedge accounting impact. Gross profit of C\$5.2 million declined 32% compared to 2Q24. A significant increase in green coffee revenue in the sales mix contributed to the decline, as

green coffee carries much lower margins compared to other revenue streams. The company also expects industry related volatility and hedging impacts will be temporary and reverse over time.

Operating expenses declined 1% to C\$3.86 million, bringing operating income to C\$1.384 million compared to C\$3.75 million in the same period of 2024. The company remains focused on optimizing its operating performance, including maintaining cost controls. SWP reported a net loss of C\$374k or (C\$0.10) per share compared to net income of C\$947k or C\$0.07 per share in 2Q24. 2Q24 included the benefit of a reversal of an inventory provision that increased gross profit, operating income and net income.

Autumn is the seasonally high period for coffee roasters

Spot availability of coffee also remains low in the current market environment and many roasters had been drawing down inventory levels in 2Q25 and recent weeks. Although SWP believes there could be some softening of demand near-term reflecting high coffee futures markets, the company expects growth in consumption of decaffeinated coffee to continue. Moreover, with the seasonally high autumn period for roasters approaching, there could be upward pressure to replenish inventory, in our view, particularly as industry metrics are consistent with SWP's view that demand for chemical-free decaffeination continues to rise. SWP believes it remains well-positioned for continued growth and that its growth has outpaced that of the overall decaf market over the past 25 years, implying market share gains.

SWP has also taken measures to optimize its inventories to be positioned to respond to customer demand. For example, SWP's inventory position had increased to C\$58.9 million by the end of 1Q25, up compared to inventory of C\$44.5 million at year-end 2024. By the end of 2Q25, it was C\$43.3 million, in line with the December level. The value of the company's inventory position is impacted by the combination of higher NY'C' coffee commodity prices, the company's planning around building or drawing down inventory and hedge accounting. SWP's strategy is to retain the flexibility to satisfy customer demand in its largest market, the U.S., and other markets. Given the size of the population, the U.S. is the largest market for coffee consumption in the world.

Uncertain near-term impact of tariffs / commodity prices

Swiss Water's exports to the U.S. were not subject to tariffs in 1Q25 and the company's decaffeination process is classified as non-transformational and therefore its shipments to international customers retain the designation of the country of origin. However, Trump announced blanket tariffs on Canadian imports. Potential tariff changes could cause further upward pressure on coffee prices. According to the [NY Times](#), "Consumers are already paying more at the grocery store. At the end of May, the average price of one pound of ground roast coffee in the U.S. was \$7.93, up from \$5.99 at the same time last year, according to the U.S. Bureau of Labor Statistics."

BENEFITS OF AN EXPANDING CUSTOMER BASE

We believe SWP is benefitting from its strategy to expand its geographic reach and customer base. Swiss Water indicated that it is seeing growing demand from new and existing customers in Asia and the Middle East, among other markets. SWP expects that, despite potential near-term industry volatility, it remains well-positioned to continue to gain share within the decaffeinated coffee space, reflecting its natural decaffeination process and strategies.



Source: [Company presentation April-2025](#)

The company recorded higher revenue from all of its key markets in 2Q25, as illustrated below. Growth in international markets was a robust roughly 58%. Growth from U.S. sales increased nearly 75% compared to 2Q24.

Revenue (C\$)			Y/Y	2025 %
	2Q25	2Q24	%Gwth	Contribution
Canada	13,191	11,221	17.6%	19.5%
U.S.	38,405	21,958	74.9%	56.7%
International and other	<u>16,099</u>	<u>10,193</u>	57.9%	23.8%
Total	67,695	43,372	56.1%	100.0%

Source: [Company reports](#)

The company continues to pursue growth in international markets and to expand its customer base, particularly development efforts in the Asian market and early development efforts in the Middle East. According to Food & Hospitality Asia ([FHA](#)), “[t]he Asia-Pacific region is estimated to be the fastest-growing specialty coffee market in the world.”

STRENGTHENING BALANCE SHEET

Elimination of warrant overhang; extended terms from traditional lending sources, enhanced financial flexibility

SWP is focused on optimizing its financial flexibility and strengthening its balance sheet. We believe this will give the company greater ability to navigate potential industry responses amid the unclear tariff and economic environment. The company recently entered into an agreement with Mill Road Capital II, L.P. to purchase the outstanding warrant entitling Mill Road Capital to acquire up to 2.25 million Swiss Water shares at an exercise price of \$3.33 per share. The warrants were set to expire on April 30, 2026. Cancellation of the warrants (for C\$675k) simplifies the company’s capital structure and eliminates an overhang on the shares. SWP had strengthened its balance sheet earlier with the 4Q24 repayment in full of \$15.9 million Mill Road debentures with warrants.

SWP also completed the renewal and amendment of its revolving credit facility, both increasing and extending terms of the prior existing facility. Moreover, SWP obtained an additional \$35 million of incremental borrowing capacity, which enhances its liquidity. The additional \$35 million consists of \$10 million of expanded credit capacity with CIBC and a new \$25 million revolving credit facility with Rabobank. The company also extended the expiration on its existing CIBC revolving facility to June 23, 2027, from October 19, 2025, with the option to extend the maturity to June 23, 2028. We view the amended terms and new Rabobank revolver, as well as the company's elimination of the Mill Road warrant overhang, as positives.

BELIEVE LONGER TERM COFFEE TRENDS SUPPORT POSITIVE OUTLOOK

Growth of decaf segment outpacing overall growth of coffee consumption

We believe that price increases of coffee beans and, in turn, beverages could have a **temporary** negative impact on demand. However, given the rising popularity of coffee beverages, the decaffeinated segment of the coffee market and of decaffeinated specialty coffee beverages, we would expect any decline in consumption to be temporary. In fact, [Coffee Intelligence](#) notes that “historically, the coffee industry has weathered periods of volatility.” While unfortunately it would not surprise us to see some smaller coffee establishments hurt, perhaps even shuttered, we believe that consumers will get past the initial sticker shock and return to normal consumption patterns in time.

Thus, we continue to believe that over time, Swiss Water is poised to benefit from several factors, including rising consumption of decaffeinated coffee and – reflecting its 100% chemical-free decaffeination process – the growing consumer trend towards natural and more healthful food and beverages (F&B). In fact, several F&B industry studies expect 2025 trends that we see as positive for the company. For example, according to beverage industry consultancy [Ripples](#), “Health and wellness trends will influence coffee consumption. As people become more health-conscious, they will seek healthier options.” Moreover, Ripple notes that with specialty coffee “gaining popularity,”.... When heading out to a cafe, more coffee drinkers are looking for unique flavors and an unparalleled experience. In 2025... expect a rise in artisanal roasters...”

Key expected long-term catalysts for Swiss Water growth

- Rising consumption of coffee generally
- Market share gains of the decaf category
- Growing popularity of specialty coffee beverages and company focus on premium category
- Consumer concerns around drinking caffeine later in the day
- Growing consumer interest in natural, chemical free food and beverages

Moreover, reflecting consumer demand for more healthful ingredients and products, among other factors, it appears that many roasters incorporate that they rely on the use of the Swiss Water process in their brand advertising to consumers, using words such as “cleanest,” and “healthiest” and “flavorful” in their branding.

We believe that as the overall market for decaffeinated coffee expands, the market for chemical free decaffeination will continue to grow, particularly given people's continued trend towards health consciousness and awareness of environmentally friendly practices. A 2025 outlook report from food conglomerate [Nestle](#) points out that about “82% of U.S. consumers currently view wellness as a top or important priority in their lives.” This is a likely factor behind why demand for organic coffee continues to rise. About 39% of consumers indicate that they are more likely to purchase coffee that is certified organic, and 59% are more likely to purchase coffee if it is grown in an environmentally sustainable way.

Decaffeinated coffee continues to play a role in the growing 'specialty coffee' category, which gives consumers more choices within the premium coffee segment. A growing focus on specialty decaffeinated coffee – or premiumization – is an important factor contributing to the expansion of the decaf category and Swiss Water's strategic focus is largely on the premium specialty coffee segment. Specialty coffees are premium varieties of coffees and include coffee brewed from high-quality beans, particularly Arabica, as well as coffee drinks such as espressos, cappuccinos, and lattes, among others. A recent NCA study indicates that 41% of U.S. consumers responded that they had enjoyed a specialty coffee "in the past day."

The decaf segment is growing and that trend is expected to continue, which we view as growth driver for Swiss Water. According to consumer research from [StudyLogic](#), the amount of decaffeinated coffee consumed has grown annually since 2017 in both the U.S. and Western Europe. Moreover, there is significant upside opportunity for the decaf category to gain market share, as decaf currently comprises only roughly 15% of coffee consumed in the U.S. and about 12% of coffee consumed in Western Europe, according to the NCA, but is gaining market share. North America and Europe are key markets for coffee consumption generally and therefore for Swiss Water. Based on data aggregated by UC Davis, the overall decaffeinated coffee market is expected to grow at CAGR of 5-7% in the 2021 to 2031 period.

VALUATION

Reflecting the positive trends in consumption of decaffeinated coffee and rising consumer interest in natural food and beverages, we believe the company is well-positioned to benefit from these industry trends over time and are optimistic about Swiss Water's growth prospects. We anticipate that any potential constraints on consumption arising from upward pressure on coffee bean prices and beverages will likely be temporary. We also view SWP's ability to expand its customer base and improve liquidity and balance sheet strength amid substantial economic and price volatility as a substantial positive.

It is difficult to compare Swiss Water shares to those of other publicly traded companies, as there are no other public companies that directly compete with Swiss Water Decaffeinated Coffee and therefore there does not seem to be a direct public competitor.

We believe using an EV/EBITDA multiple, particularly as the fluctuations in commodity prices of coffee beans impacts the company's revenue, but this impact is generally offset at the adjusted EBITDA level. Over the past few years, the EV/EBITDA for the S&P 500 has generally been a range of about 13x to 17x. We believe, however, that smaller cap companies likely trade at lower average EV/EBITDA multiples and we therefore apply a discount to the above noted S&P 500 average.

We forecast adjusted EBITDA of C\$14.5 million in 2025, up from C\$14.3 million generated in 2024. We expect multiple expansion over the long-term, although we believe the multiple could be constrained in the near-term reflecting uncertainty and volatility discussed in this report. We derive a near-term valuation of about C\$5.65 to C\$7.00 (about US\$4.00 to US\$5.00) per share, or about C\$6.10 at the midpoint, which is still well below the multiple the S&P 500 commands.

If the company delivers milestones on its growth initiatives earlier than anticipated, it could impact the multiple. Any delay or failure in successful execution of the strategy or short-term constraint in market demand could represent a potential risk to the company's valuation and cause the share price to decline. The company believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

RECENT NEWS

- Swiss Water reported 2Q25 results on August 6, 2025.
- Swiss Water announced its purchase of warrants from Mill Road Capital on June 30, 2025.
- On June 24, 2025, the company announced the extension and expansion of its credit facilities.
- Swiss Water reported 1Q25 results on May 8, 2025.
- On May 9, 2024, the company reported voting results from its annual general meeting.
- Swiss Water launched its second production line in the Delta, BC facility on November 6, 2023.
- The company completed its second production line in Delta, BC on August 8, 2023.

RISKS

We believe risks to Swiss Water achieving its goals and to our valuation, include the following, among others.

- Tariffs could have a greater impact on prices than we currently anticipate and price increases could have a greater or more sustainable impact on consumption and company sales.
- Swiss Water might not gain market share as quickly as the company expects, which could lead to slower than anticipated revenue ramp.
- The company could incur unanticipated costs associated with market initiatives.
- Competition could increase.
- The company might need to raise capital to support its strategy that might be dilutive to current shareholders.
- Demand might exceed the company's production capacity, which would likely impose constraints on revenue growth.
- Commodity bean prices fluctuate. Although the impact is usually offset at the company's adjusted EBITDA level, there could be lags that in the short-term impact results more than anticipated.
- Given that the majority of Swiss Water revenue is generated outside of its home market of Canada, FX rates might have a greater impact on consolidated revenue and results than anticipated.
- Futures prices and consequently likely increased coffee prices could constrain demand for coffee more than currently anticipated.

PROJECTED FINANCIALS

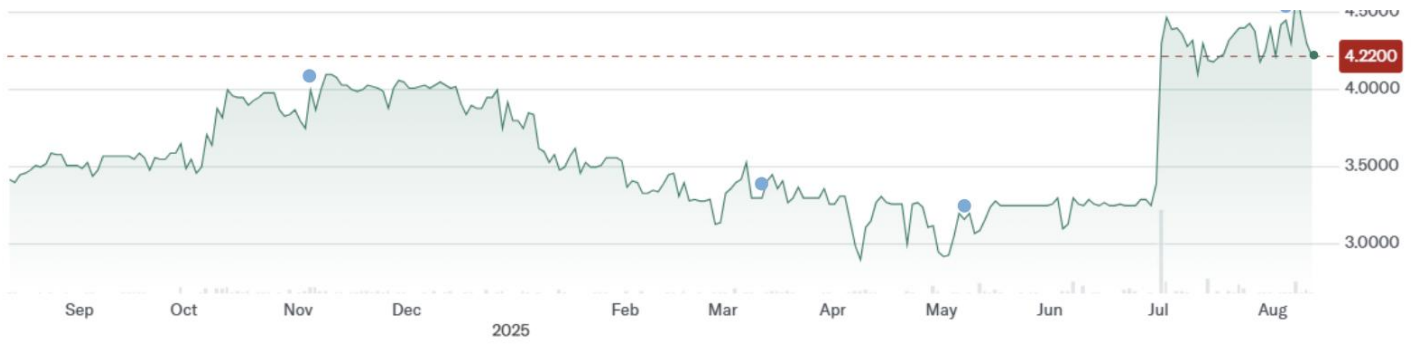
Swiss Water Decaffeinated Coffee Inc (\$000 Canadian except per share amounts)

	1Q24	2Q24	3Q24A	4Q24A	2024A	1Q25A	2Q25A	3Q25E	4Q25E	2025E
Revenue	38,730	43,372	41,778	49,249	173,129	62,272	67,695	43,867	44,309	218,143
COGs	33,615	35,707	35,342	42,275	146,939	54,985	62,447	38,603	38,327	194,362
Gross profit	5,115	7,665	6,436	6,974	26,190	7,287	5,248	5,264	5,982	23,781
Administration exp	2,837	2,947	2,747	2,803	11,334	2,435	2,962	2,801	2,885	11,082
Sales & marketing exp	<u>914</u>	<u>970</u>	<u>909</u>	<u>1,008</u>	<u>3,801</u>	<u>954</u>	<u>902</u>	<u>918</u>	<u>826</u>	<u>3,600</u>
Total OpEx	3,751	3,917	3,656	3,811	15,135	3,389	3,864	3,719	3,711	14,683
Operating income	1,364	3,748	2,780	3,163	11,055	3,898	1,384	1,545	2,271	9,098
Gain (loss) risk mgmt ac	(149)	(519)	(1,970)	477	(2,161)	(2,839)	(1,101)			
Gain (loss) fair value em	(891)	83	144	(315)	(979)	1,111	546			
Other gains	-	-								
Finance income	460	446	509	334	1,749	378	362			
Finance expense	(2,288)	(2,293)	(2,294)	(1,865)	(8,740)	(1,718)	(1,702)			
FX gain (loss)	<u>380</u>	<u>206</u>	<u>(269)</u>	<u>1,070</u>	<u>1,387</u>	<u>(159)</u>	<u>(110)</u>	-	-	-
Total other	(2,488)	(2,077)	(3,880)	(299)	(8,744)	(3,227)	(2,005)	(2,328)	(2,002)	(9,562)
Pretax income (loss)	(1,124)	1,671	(1,100)	2,864	2,311	671	(621)	(783)	269	(464)
Taxes	(224)	724	(309)	851	1,042	156	(247)	(188)	73	(206)
Net income (loss)	(900)	947	(791)	2,013	1,269	515	(374)	(595)	196	(258)
Net loss after effect of diluted securities							(920)			
EPS	(\$0.10)	\$0.07	(\$0.08)	\$0.21	\$0.13	\$0.05	(\$0.04)	(\$0.06)	\$0.02	(\$0.03)
Adj EPS	(\$0.10)					(\$0.06)	(\$0.10)	(\$0.06)	\$0.02	(\$0.20)
Avg shares out*	9,224	9,502	9,518	9,518	9,440	9,531	9,545	9,560	9,574	9,552

Source: Company reports, Zacks estimates

*Ex RUSs

HISTORICAL STOCK PRICE



Source: Yahoo Finance

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