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Zacks Small-Cap Research

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

SWP.TO: Volumes Up 7% Despite Volatile Market, as SWP Maintains Inventory & Financial Flexibility to Respond to Changing Demand Patterns

SWP reported strong 3Q25 results, particularly against a backdrop of rising coffee prices & industry challenges, we believe. Customer demand has remained strong. While U.S. grocery channels experienced declines in volume due to rapid retail price increases, SWP's 3Q25 processed volumes increased 7% y/y & 4% ytd. SWP cited its strategy to maintain flexibility to meet demand amid shifting timing of customer purchases in an uncertain pricing & tariff environment.

Current Price (11/7/25)	C$4.44
Valuation	**C$6.10**

OUTLOOK

SWP's strategic growth measures include balance sheet strengthening measures through debt repayments & cancellation of outstanding warrants, increasing liquidity through amended terms on its revolving credit facility & addition of a new credit facility, optimizing inventories to be positioned to respond to customer demand & focus on new global markets. Tariffs on most Brazilian product imports has led to demand shift away from Brazil from multiple customers, with SWP looking to source coffee from other markets, while retaining flexible purchasing and inventory management in the face of potentially rapid changes in tariffs.

SUMMARY DATA C$

52-Week High	**$4.64**
52-Week Low	**$2.88**
One-Year Return (%)	**26**
Beta	**N/A**
Average Daily Volume (sh)	**7,993**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$42**
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	**Small-Value**
Industry	**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	63 A	48 E	241 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	$0.02 A	$0.03 E	-$0.09 E

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

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CUSTOMER DEMAND GREW EVEN AMID TARIFFS, MARKET UNCERTAINTY

SWP's 3Q25 processed volumes were up 7% despite volatile market conditions, as company maintains inventory & financial flexibility to respond to changing demand patterns

Swiss Water Decaffeinated Coffee Inc. (OTC:SWSSF, TSX: SWP) reported 3Q25 results last week that were strong, particularly against a backdrop of rising coffee prices, industry challenges and adjusting for the impact of FX and hedging, we believe. The company is a leading specialty coffee company and premium green coffee decaffeinator producing chemical-free decaffeinated coffee.

Customer demand has remained strong, despite the challenging industry backdrop, including U.S. grocery channels experiencing declines in volume due to rapid retail price increases. 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 and volumes through the retail grocery channel were down, while nevertheless SWP's volumes were up. Revenue of C$62.7 million increased 50% year-over-year, as 3Q25 processed volumes increased 7% compared to 3Q24. The company cited its strategy to maintain flexibility to meet demand amid shifting timing of customer purchases in an uncertain pricing environment. Year-to-date through September 30, 2025, the company's processed volumes increased 4% year-over-year and revenue increased 56% to C$192.7 million.

Growth despite tariffs, variances in purchase timing & volatile coffee futures throughout quarter

This growth came despite tariffs, variances in purchase timing and volatile coffee futures throughout the quarter. The NY'C' coffee futures price for Arabica coffee remained volatile during 3Q25, peaking at US$4.32/lb in September 2025. Moving forward, the higher prices and inverted coffee market may result in a softening of consumer demand and volumes shipped to roasters. The NYC coffee futures price for Arabica coffee remained volatile during 3Q25, peaking at US$4.32/lb in September. During 3Q25, the NYC averaged US$3.37/lb, compared to an average of US$2.46/lb in Q324, an increase of 37%.

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

Volatility of the NY'C' impacts SWP's volume shipments, revenues, cost of sales and working capital needs. 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.

The strong 3Q25 results also reflect the company's strategic measures to maintain growth, favorable FX movements and the company's hedging activities and balance sheet strengthening measures. SWP has also taken measures to optimize its inventories to be positioned to respond to customer demand. Regarding its 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.

The company has also made progress in strengthening its balance sheet (see below) has continued this quarter through repayments of construction loan and credit facilities. SWP's agreement with Mill Road Capital to repurchase and cancel outstanding warrants include year-to-date repayment of C$4.0 million of construction debt.

Separately, Swiss Water's decaffeination process has been formally classified by US customs as "non-transformational", which equates to processed beans retaining their country-of-origin status for tariff purposes. However, during 3Q25, the U.S. announced its intention to increase tariffs on most Brazilian product imports from 10% to 50%, effective August 7, 2025. Brazil is the biggest producer of green coffee globally. The change has led to demand shift away from Brazil from multiple customers to coffee producing countries that have lower or no tariffs imposed. This is expected to cause short term disruptions and volume issues for the next several months. The company is looking to source coffee from other markets, although it intends to retain flexible purchasing and inventory management in the face of potentially rapid changes in tariffs.

Cost of sales, which is impacted by commodity prices, was C$56.3 million, up 59% 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$6.4 million was relatively even compared to 3Q24. The company also expects industry related volatility and hedging impacts will be temporary and reverse over time.

Operating expenses increased 16% to C$4.2 million, bringing operating income to C$2.2 million compared to C$2.8 million in the same period of 2024. The company remains focused on maintaining cost controls to optimizing its operating performance. Net income was C$0.2 million compared to a net loss of C$0.8 million and adjusted EBITDA was C$3.3 million, a 52% increase compared to 3Q24.

Autumn is the seasonally high period for coffee roasters

Some roasters have adjusted their purchasing strategies and will continue to manage with reduced inventory levels, underlying demand for chemical-free decaffeination continues to rise and currently our roasting partners are generally operating at or above prior year volumes during the seasonally higher fall roasting period. SWP expects growth in consumption of decaffeinated coffee to continue. Moreover, with the seasonally high autumn period for roasters, there likely was upward pressure on roasters 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.

Growth of decaf segment = gains in market share of coffee consumption

Given the rising popularity of coffee beverages, the decaffeinated segment of the coffee market and of decaffeinated specialty coffee beverages, we expect the overall trajectory of consumption to be upward sloping and we continue to believe that over time, Swiss Water is poised to benefit from several factors, including market share gains of the decaf category, growing popularity of specialty coffee beverages and the company's focus on the premium category and growing consumer concerns around healthful food and beverages, among other factors. Reflecting its 100% chemical-free decaffeination process, the growing consumer trend towards natural and more healthful food and beverages (F&B) creates a positive tailwind, in our view.

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..."

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.

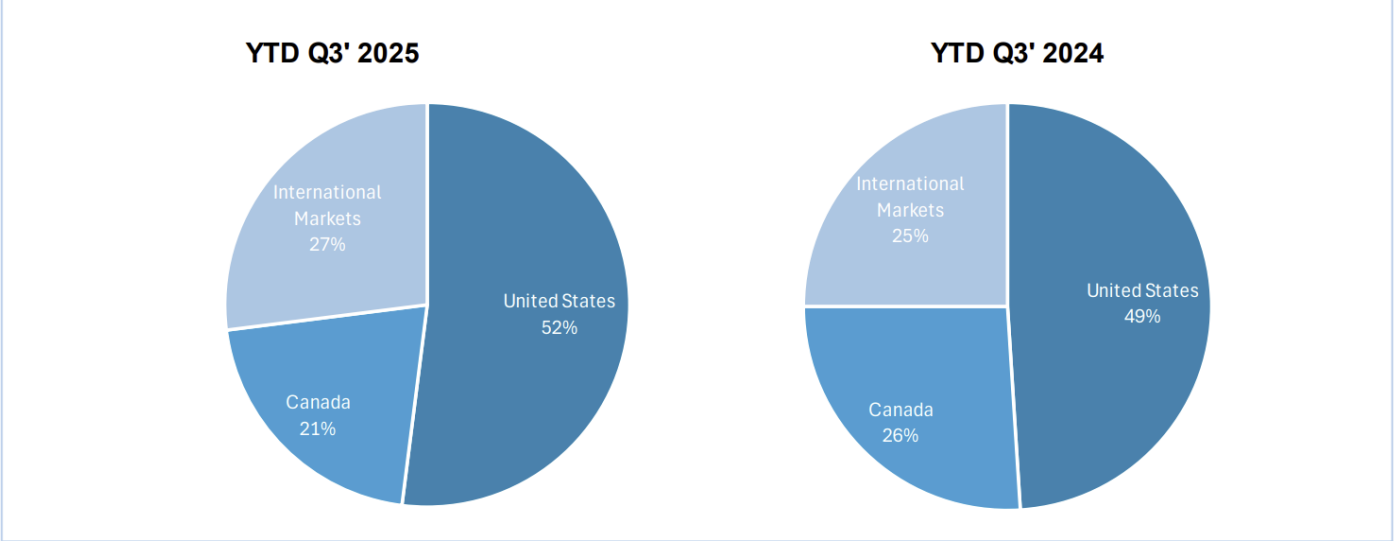
We believe that as the overall market for decaffeinated coffee expands, the market for chemical free decaffeination will continue to grow, particularly given people's continued trend towards health consciousness and awareness of environmentally friendly practices. A 2025 outlook report from food conglomerate 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.

CUSTOMER BASE CONTINUES TO EXPAND

We believe SWP is also 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 reports

The company recorded higher revenue from all of its key markets in 3Q25. Sales volume in North America increased by 1% and sales volume in international markets increased by 14%.

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 & Hosp8tality Asia (FHA), "[t]he Asia-Pacific region is estimated to be the fastest-growing specialty coffee market in the world."

STRENGHENING BALANCE SHEET

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 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. We view it as a positive that 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. As of September 30, 2025, the company had cash of C$3.9 million.

VALUATION

We believe the uncertain industry environment could constrain the share price multiple in the near-term. Nevertheless, 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 3Q25 results on November 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	3Q25A	4Q25E	2025E
Revenue	38,730	43,372	41,778	49,249	173,129	62,272	67,695	62,747	48,264	240,978
COGs	33,615	35,707	35,342	42,275	146,939	54,985	62,447	56,307	41,748	215,487
Gross profit	5,115	7,665	6,436	6,974	26,190	7,287	5,248	6,440	6,516	25,491
Administration exp	2,837	2,947	2,747	2,803	11,334	2,435	2,962	3,341	3,274	12,012
Sales & marketing exp	914	970	909	1,008	3,801	954	902	885	826	3,567
Total OpEx	3,751	3,917	3,656	3,811	15,135	3,389	3,864	4,226	4,100	15,579
Operating income	1,364	3,748	2,780	3,163	11,055	3,898	1,384	2,214	2,415	9,911
Gain (loss) risk mgmt ac	(149)	(519)	(1,970)	477	(2,161)	(2,839)	(1,101)	(728)		
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	407		
Finance expense	(2,288)	(2,293)	(2,294)	(1,865)	(8,740)	(1,718)	(1,702)	(1,635)		
FX gain (loss)	380	206	(269)	1,070	1,387	(159)	(110)	144	-	-
Total other	(2,488)	(2,077)	(3,880)	(299)	(8,744)	(3,227)	(2,005)	(1,812)	(2,002)	(9,046)
Pretax income (loss)	(1,124)	1,671	(1,100)	2,864	2,311	671	(621)	402	413	865
Taxes	(224)	724	(309)	851	1,042	156	(247)	186	112	207
Net income (loss)	(900)	947	(791)	2,013	1,269	515	(374)	216	302	659
Net loss after effect of diluted securities							(920)			
EPS	($0.10)	$0.07	($0.08)	$0.21	$0.13	$0.05	($0.04)	$0.02	$0.03	$0.07
Adj EPS	($0.10)					($0.06)	($0.10)	$0.02	$0.03	($0.09)
Avg shares out*	9,224	9,502	9,518	9,518	9,440	9,531	9,545	9,545	9,574	9,548

Source: Company reports, Zacks estimates *Ex RUSs

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Source: Yahoo Finance

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