

# Zacks Small-Cap Research

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

**SWP.TO: Industry Dynamics & Fundamentals Appear to be Normalizing**

SWP reported 1Q26 results that we believe underscore normalizing industry fundamentals. The NY'C' coffee futures price for Arabica coffee declined during 1Q26. Partially on lower NY'C', SWP's 1Q26 gross margin was 13.8% vs 12.1% in 4Q25 & 11.7% in 1Q25 and gross profit was up 8.6% y/y to C\$7.9 million, despite lower revenue, partially reflecting a 10-day unplanned closure of a production line in Jan. 1Q26 ordering remained strong as many customers rebuild inventories.

Current Price (5/8/26) C\$5.33  
Valuation C\$7.50

### OUTLOOK

SWP is focused on optimizing its financial flexibility & strengthened its balance sheet in 1Q26. SWP repaid C\$6.4m of debt, contributing to 17% y/y reduced quarterly interest expense. Post 1Q26, SWP's operating credit facility maturity date was renewed & extended by one year until June 2028. SWP's AGM is scheduled for May 21, 2026. In advance, SWP entered into a cooperation agreement with its largest shareholder & agreed to nominate its CIO to the BOD. His participation on the SWP board is expected to help further align SWP's goals and interests with those of public shareholders to drive shareholder value.

### SUMMARY DATA C\$

52-Week High \$5.67  
52-Week Low \$2.80  
One-Year Return (%) 72  
Beta NA  
Average Daily Volume (sh) 5,640

Shares Outstanding (mil) 10  
Market Capitalization (\$mil) \$53  
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 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	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
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	66 A	259 A
2026	57 A	68 E	63 E	67 E	256 E

#### Loss/share or EPS (C\$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
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	\$0.13 A	-\$0.01 A
2026	\$0.14 A	\$0.05 E	\$0.05 E	\$0.05 E	\$0.29 E

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

Disclosure page 10

## INDUSTRY DYNAMICS AND FUNDAMENTALS APPEAR TO BE NORMALIZING

*With improving pricing environment, customer ordering activities has picked up, as many actively rebuild their decaf inventories after pulling back amid a challenging 2025*

Swiss Water Decaffeinated Coffee Inc. (OTC:SWSSF, TSX: SWP) reported 1Q26 results last week and hosted a conference call. Processed volumes decreased 2% in 1Q26 compared to 1Q25, partially reflecting a 10-day unplanned closure of one production line in January. With this disruption and reflecting lower NY'C' coffee futures prices, revenue fell 8% year-over-year to C\$57.5 million in 1Q26.

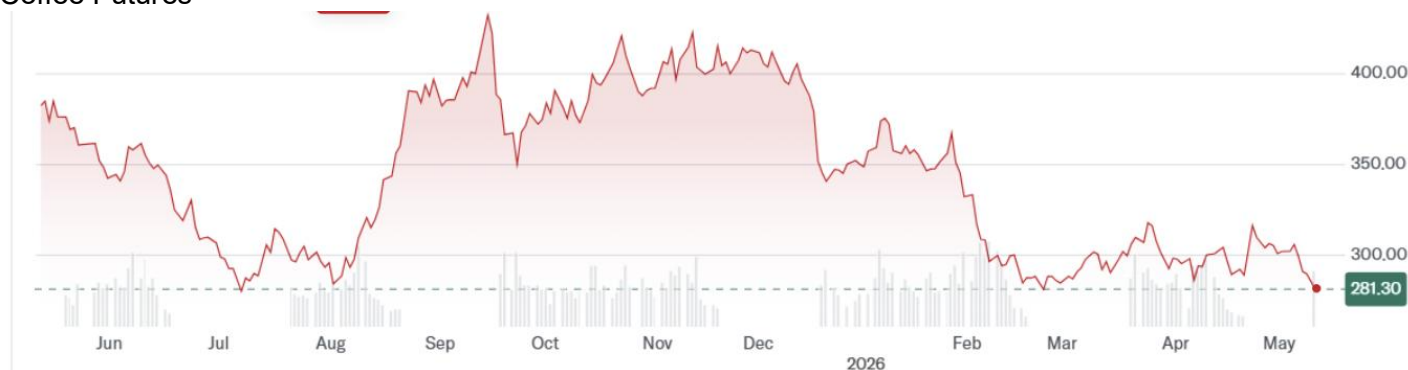
Industry dynamics and fundamentals appear to be normalizing. The NY'C' coffee futures price for Arabica coffee declined during 1Q26 compared to prior quarters. Specifically, coffee prices and coffee futures prices were volatile and pressured upward in 2025, reflecting weak crop harvests, tariffs, disrupted trade patterns, recession concerns and the geopolitical climate, among other factors. The coffee futures contract is the global benchmark for Arabica coffee. Futures contract prices were at their highest levels in 2025 since the early 1970s and were volatile throughout the year.

Prices now appear to be declining, according to Swiss Water and trade publications. The supply outlook for coffee has improved, with a strong crop expected in the next (2026-2027) season. The National Supply Company ([Conab](#)) anticipates a significant increase in Brazilian supply, forecasting a 17+% increase in 2026 compared to 2025, with Arabica production up an anticipated 23+%.

Although upward pressure on prices continued into January 2026, as indicated by data from the Federal Reserve, prices peaked at US\$3.75/lb in January, and subsequently declined to US\$2.98/lb at the end of the quarter. For example, during 4Q25, the NY'C' averaged US\$3.83/lb, up 35% compared to an average of US\$2.83/lb in 4Q24, and reaching a quarterly high of US\$4.23/lb in November. By comparison, the NY'C' averaged US\$3.16/lb in 1Q26, compared to US\$3.73/lb in 1Q25, which represents a 15% decrease.

The company is optimistic that volatility in the global coffee market is starting to abate. The inverted futures curve is narrowing and, as noted, the NY'C' coffee futures price has declined from the record highs recorded in 2025. However, spot availability of green coffees remains low, and the futures market remained inverted during 1Q26.

Coffee Futures



Source: [Yahoo Finance](#)

Nevertheless, with an improving pricing environment, customers' ordering activities have picked up. Some roasters remain cautious regarding managing their purchasing activities, but many customers appear to be actively rebuilding their decaffeinated coffee inventories after pulling back amid a challenging 2025. Customer ordering remained strong throughout the quarter, with roasters restocking their pipelines and extending booking visibility into the back half of the year, although, as noted, Swiss

Water's 1Q26 process volumes were down year over year, largely due to a 10-day unplanned downtime on one line in January.

The company believes that had no disruption occurred, it would have delivered strong volume growth in 1Q26. Management estimates that its growth has consistently outpaced that of the overall decaf market, over the last 25 years, averaging 5% compared to 1-2%. At the same time, SWP continues to monitor coffee consumption in the US grocery marketplace and expects some fluctuations in consumer demand during 1H 2026 as prices remain sticky at the prevailing higher levels. Thus, SWP's performance is against a backdrop of ongoing constrained U.S. at-home demand. However, given the growing popularity of coffee beverages – particularly decaffeinated – potential pullback in demand is likely to be short-term, in our view. (Moreover, SWP has identified initiatives to help counter the potential impact if tariffs are imposed in the future.)

Higher coffee prices also impact the company's costs and margins, which can fluctuate from quarter to quarter. Partially on lower NY'C', SWP's 1Q26 gross margin was 13.8% compared to 12.1% in the prior quarter and 11.7% in 1Q25 and gross profit was up 8.6% year-over-year to C\$7.9 million, despite the lower revenue. Higher operating expenses – C\$4.3 million versus C\$3.4 million in 1Q25 contributed to lower operating income of C\$3.6 million versus C\$3.9 million.

Non-operating or other expenses declined significantly reflecting the impact of mark-to-market adjustments on hedging, among other factors. Net income was C\$1.4 million and EPS was C\$0.14, compared to C\$0.5 million and C\$0.05, respectively, in 1Q25. Importantly, adjusted EBITDA of C\$4.2 million more than doubled (up 113%) compared to 1Q25, primarily driven by the improved gross profit and lower losses on risk management activities, as the NY'C' coffee commodity market was significantly less inverted when compared to the same period in 2025. Thus, adjusted EBITDA improvement reflects significantly lower inversion expenses and improved inversion cost recovery.

### ***Balance Sheet strengthening measures & enhanced financial flexibility***

SWP is focused on optimizing its financial flexibility and also made progress in strengthening its balance sheet in 1Q26. SWP repaid C\$6.4 million of debt, consisting of C\$5.0 million of the operating credit facility and C\$1.4 million of its construction loan as per scheduled principal payment. In addition, SWP has reduced quarterly interest expense by 17% year-over-year. Subsequent to quarter end, SWP's operating credit facility maturity date was renewed on May 4, 2026, and extended by one year until June 2028.

### ***SWP believes company growth outpacing overall decaf segment growth***

Coffee ranks among the top beverages consumed. Daily coffee consumption in the U.S. reached a 20-year high in 2024, with some 67% of American adults reporting that they "had coffee in the past day (more than any other beverage). According to the National Coffee Association's (NCA's) Fall 2025 National Coffee Data Trends (NCDT) report, among beverages consumed, coffee is second only to bottled water. Coffee popularity has been consistent since 2022, with bottled water generally #1 only during the summer, but consumption of cold coffee beverages is growing rapidly.

According to recent market research, the international decaf coffee market will grow by 6% to 7% annually over the next five years, [projected to reach over US \\$28.8 billion by 2030](#). Thus, even if tariffs were re-imposed and offset some of the expected price improvement, 1) decaf coffee consumption is growing, a trend we expect will continue, 2) SWP's natural 100% chemical-free decaffeination process is expected to remain highly attractive, given consumers continued trend towards health consciousness, and 3) SWP's global focus continues to drive growth in multiple international markets where prices are expected to benefit from supply increases.

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. As noted, SWP believes its growth over the last 25 years has averaged 5% compared to 1-2% for the overall decaf segment.

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. Reflecting its 100% chemical-free decaffeination process, the growing consumer trend towards natural and more healthful food and beverages (F&B) also creates a positive tailwind, in our view. 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."

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.

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. According to Coffee Intelligence, the 2021 global organic coffee market was valued at \$133 billion, which represented a 24.6% year-over-year advance. 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.

Moreover, 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."

### ***SWP process is natural & organic***

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, particularly given research on potential health benefits of coffee consumption combined with SWP's natural process. Importantly, Swiss Water's proprietary Swiss Water® Process is a chemical-free way to decaffeinate coffee. The process is certified organic by the Organic Crop Improvement Association. Decaffeination is the process of removing caffeine from coffee beans. The process is regulated to ensure that all but trace amounts of the chemical solvents are removed before the coffee is roasted and that the caffeine has been largely removed. The U.S. Food and Drug Administration (FDA) mandates that at least 97% of the caffeine be removed in order for coffee to be labeled decaffeinated. Certain decaffeination processes incorporate the use of methylene chloride. The FDA has deemed the use of methylene chloride safe in the decaffeination process, indicating that only trace amounts remain in the beverage. However, as it is considered a possible carcinogen, many countries do not allow the importation of coffee that has been decaffeinated with it. In fact, many of the various solvents used in most commercial decaffeination processes are considered carcinogenic or toxic but since only trace amounts wind up in the finished goods following the decaffeination process, these methods have been

deemed safe and the majority of worldwide decaffeination capacity utilizes chemical decaffeination methods.

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 they are more likely to purchase coffee that is certified organic.

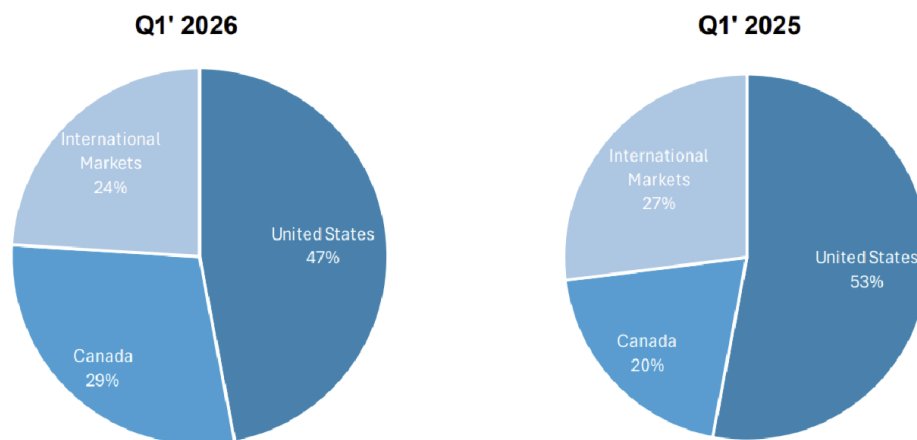
## EXPANDING INTERNATIONAL CUSTOMER BASE

The company is also focused on expanding its global footprint. Coffee consumption is rising in many international markets. We believe SWP is benefitting from its strategy to expand its geographic reach and customer base. Demand in Europe has been strong and the company is also focused on growing its presence in new markets in Asia and elsewhere. In fact, Swiss Water has indicated that it is seeing growing demand from new and existing customers in Asia and the Middle East, among other markets.

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 ([EHA](#)), “[t]he Asia-Pacific region is estimated to be the fastest-growing specialty coffee market in the world.” The Middle East is also an area where coffee demand had been growing but near-term shipments likely could be interrupted, we believe, by geopolitical factors. SWP’s sales volume in international markets decreased by 11%. Continued quarter-to-quarter lumpiness would not surprise us.

Given the size of the population, the U.S. is the largest market for coffee consumption in the world and for SWP. Sales volume in North America increased by 1% in 1Q26. The largest geographical market by volume for 1Q26 was the U.S., which is not surprising, in our view, given the size of the coffee markets. The U.S. was followed by Canada and international markets.

### 1Q26 Geographic Revenue Breakdown



Source: [Company reports](#)

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## COOPERATION AGREEMENT WITH LARGEST SHAREHOLDER

SWP's annual general meeting (AGM) is scheduled to be held on Thursday, May 21, 2026. In advance of the meeting, the company has entered into a cooperation agreement with its largest shareholder, Properly Investment Company, which holds about 16.4% of the company's common shares outstanding. Per the agreement, SWP has agreed to nominate Properly Investments' Chief Investment Officer, Mr. Mark Vendramin, along with an additional slate of six of the company's current directors, including Frank Dennis. This would bring the total number of nominated directors to seven.

Their agreement provides that Properly Investments will vote for the full board slate as well as the other resolutions being proposed at the upcoming 2026 AGM. SWP has also begun a search for an additional independent director with a well-known search firm to support further board renewal over the coming year. Mr. Vendramin will serve on the Corporate Governance and Compensation Committee and on a board working group leading the director search process on behalf of the Corporate Governance Committee and the board.

He has more than 20 years of experience in investments, including capital markets, corporate finance, debt financing and governance. His participation on the SWP board is expected to help further align SWP's goals and interests with those of public shareholders to drive operational efficiencies, boost cash flow generation and financial flexibility through improved balance sheet strengthening measures to generate shareholder value.

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## VALUATION

As noted, in our view, SWP has established the foundation for growth as industry fundamentals normalize. SWP remains focused on supporting its customers, continuing to reduce leverage and pursuing growth opportunities. For example, the repayment of C\$6.4 million of debt in 1Q26 contributed to a 17% reduction in interest expense compared to 1Q25, as noted.

The company is strategically managing inventory levels to be responsive to potentially rapid shifts in customer demand and fluctuations in quarterly sales activity, contained costs and has strengthened its balance sheet to retain financial flexibility.

We believe the company is well-positioned to benefit from 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 positives.

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 believe our initial C\$14 million 2026 adjusted EBITDA forecast could prove conservative. On an annualized basis, 1Q26 adjusted EBITDA would exceed the forecast, reflecting the expected resumption

of a normalized industry backdrop. We expect multiple expansion over the long-term, although we believe the multiple could be constrained in the near-term reflecting uncertainty around the industry outlook. We would expect such uncertainty to moderate if coffee prices and industry dynamics continue to improve and raise our near-term valuation to about C\$6.50 to C\$8.50 (about US\$4.75 to US\$6.21) per share, or about C\$7.50 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. We believe the risk / reward ratio could be attractive for investors who have a higher than average risk tolerance and longer time horizon.

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## RECENT NEWS

- Swiss Water reported 2025 results on May 6, 2026.
- Swiss Water announces its slate of Board of Directors for upcoming AGM and cooperation agreement with its largest shareholder on April 1, 2026.
- On March 17, 2026, Swiss Water releases information about its Shareholder Rights Plan.
- 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.
- 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.

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## RISKS

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

- Tariffs could recur and 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.
- Potential production capacity constraints could constrain revenue growth in the short-term.
- 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.
- 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)

	1Q25A	2Q25A	3Q25A	4Q25A	2025A	1Q26A	2Q26E	3Q26E	4Q26E	2026E
Revenue	62,272	67,695	62,747	66,005	258,719	57,452	68,372	63,374	66,665	255,863
COGs	54,985	62,447	56,307	57,989	231,728	49,539	61,603	56,720	59,519	227,381
Gross profit	7,287	5,248	6,440	8,016	26,991	7,913	6,769	6,654	7,146	28,483
Administration exp	2,435	2,962	3,341	2,500	11,238	3,249	3,333	3,453	3,764	13,800
Sales & marketing exp	<u>954</u>	<u>902</u>	<u>885</u>	<u>953</u>	<u>3,694</u>	<u>1,050</u>	<u>1,055</u>	<u>1,061</u>	<u>1,066</u>	<u>4,232</u>
Total OpEx	3,389	3,864	4,226	3,453	14,932	4,299	4,389	4,514	4,830	18,032
Operating income	3,898	1,384	2,214	4,563	12,059	3,614	2,380	2,140	2,316	10,451
Gain (loss) risk mgmt ac	(2,839)	(1,101)	(728)	(1,738)	(6,406)	(614)				
Gain (loss) fair value em	1,111	546		-	1,657					
Other gains				-						
Finance income	378	362	407	487	1,634	378				
Finance expense	(1,718)	(1,702)	(1,635)	(1,538)	(6,593)	(1,424)				
FX gain (loss)	<u>(159)</u>	<u>(110)</u>	<u>144</u>	<u>(136)</u>	<u>(261)</u>	<u>(40)</u>	-	-	-	<u>(40)</u>
Total other	(3,227)	(2,005)	(1,812)	(2,926)	(9,969)	(1,700)	(1,683)	(1,666)	(1,691)	(6,740)
Pretax income (loss)	671	(621)	402	1,637	2,090	1,914	697	474	625	3,710
Taxes	156	(247)	186	431	527	534	188	100	169	991
Net income (loss)	515	(374)	216	1,206	1,563	1,380	509	375	456	2,720
Net loss after effect of diluted securiti		(920)		826	(94)					
EPS	\$0.05	(\$0.04)	\$0.02	\$0.13	\$0.16	\$0.14	\$0.05	\$0.05	\$0.05	\$0.29
Adj EPS	(\$0.06)	(\$0.10)	\$0.02	\$0.13	(\$0.01)					
Avg shares out*	9,531	9,545	9,545	9,622	9,699	9,592	9,598	9,604	9,610	9,601

Source: Company reports, Zacks estimates

\*Ex RUSs

## HISTORICAL STOCK PRICE



Source: Yahoo Finance

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