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Zacks Small-Cap Research

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

SWP.TO: Believe Share Repurchase Plan Underscores Company's Confidence in its Outlook as Industry Fundamentals Appear to Improve

With an improving pricing environment, customer ordering activities has picked up, as many actively rebuild their decaf inventories after pulling back amid a challenging 2025. SWP reported 2Q26 processed volumes increased 17% in 2Q26 vs. 2Q25 and 8% in 1H26 compared to 1H25. The supply outlook & pricing for coffee have improved. Reflecting Swiss Water's booking visibility into the back half of the year, the company is optimistic about volumes over the remainder of 2026.

Current Price (8/17/26)	C$7.11
Valuation	**C$10.00**

OUTLOOK

Reflecting Swiss Water's optimistic outlook, the company intends to purchase up to ~650k shares depending on market conditions and the price of its share. This would represent about 9.7% of its outstanding public float. The NCIB is expected to launch on August 20, 2026 and end on August 19, 2027. The NCIB reflects management's view that the market price of its shares do not fully reflect the company's prospects. We view this measure as a positive and potential catalyst for share price appreciation. Management believes it has sufficient cash flow and liquidity to manage operations and maintain growth initiatives and to support share repurchases.

SUMMARY DATA C$

52-Week High	**$5.67**
52-Week Low	**$2.80**
One-Year Return (%)	**70**
Beta	**NA**
Average Daily Volume (sh)	**11,860**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$68**
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	**12**

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)
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	66 A	63 E	67 E	253 E

Loss/share or EPS (C$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (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	$0.20 A	$0.12 E	$0.12 E	$0.58 E

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

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VIEW SHARE REPURCHASE PLAN AS A POSITIVE AND POTENTIAL CATALYST

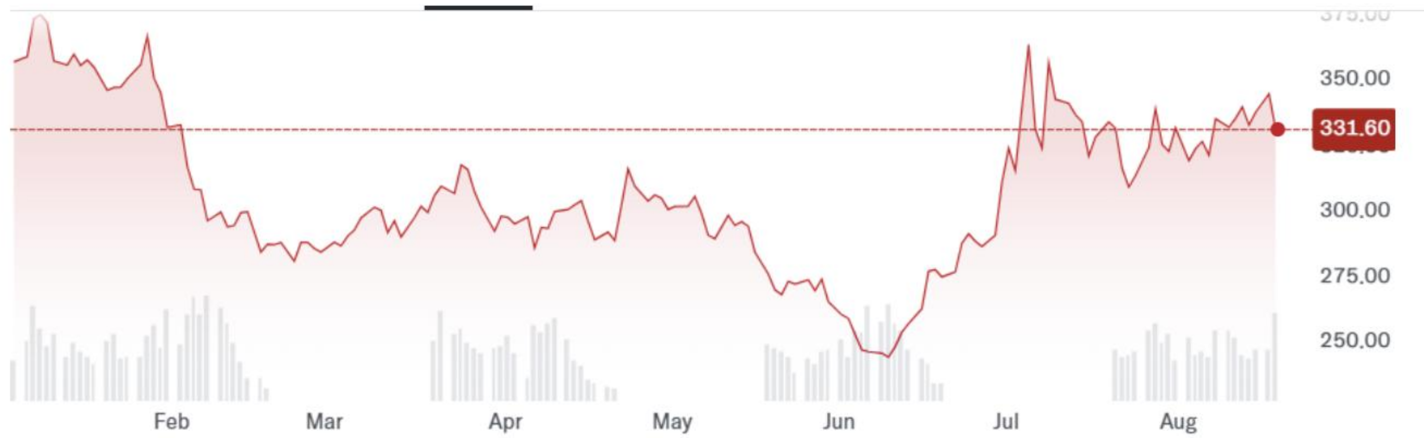
Pick up in customer orders contributes to 17% y/y increase in processed volumes in 2Q26

Swiss Water Decaffeinated Coffee Inc. (OTC:SWSSF, TSX: SWP) reported 2Q26 results that we believe illustrate the underlying strength in the company's business and compared to growth prospects as the price of coffee normalizes. Processed volumes increased 17% in 2Q26 vs. 2Q25 and 8% in 1H26 compared to 1H25.

Industry fundamentals appear to be normalizing. During 1Q26, the NY'C' peaked at US$3.00/lb and subsequently pulled back to a low of $2.96/lb. By comparison, the NY'C' averaged US$3.16/lb in 1Q26 and US$3.83/lb in 4Q25. The downward trend year-to-date reflects improving crop harvests and elimination of tariffs, among other factors. The coffee futures contract is the global benchmark for Arabica coffee. Spot availability of green coffees remained low, however, and the futures market remained inverted during the quarter.

The supply outlook for coffee has improved, with a strong crop expected in the 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+%.

Coffee Futures



Source: Yahoo Finance

Reflecting Swiss Water's booking visibility into the back half of the year, the company is optimistic about volumes over the remainder of 2026, although coffee futures prices could fluctuate somewhat. In fact, many customers appear to be actively rebuilding their decaffeinated coffee inventories after pulling back amid a challenging 2025 when futures contract prices were at their highest levels since the early 1970s and volatile throughout the year. Customer ordering remained strong throughout 2Q26, with roasters restocking their pipelines. On the lower prices, revenue fell 6% year-over-year to C$66.0 million in 2Q26, but lower coffee prices also impact the company's costs and margins, which can fluctuate from quarter to quarter. Partially on lower NY'C', SWP's 2Q26 gross margin was 15.4% compared to 7.8% in 2Q25 and gross profit was up 94% year-over-year to C$10.2 million. Although operating expenses were C$5.9 million versus C$3.9 million in 2Q25, on the significantly higher gross profit, operating income of C$4.3 million versus C$1.4 million in 2Q25 more than tripled (advanced 210% year-over-year). Net income was C$1.9 million and EPS was C$0.20, compared to a loss of C$0.4 million and C$0.04 per share, respectively, in 2Q25. Importantly, adjusted EBITDA of C$5.3 million more than doubled (up 191%) compared to 2Q25.

Reflecting Swiss Water's optimistic outlook, the company filed notice of intention to launch a Normal Course Issuer Bid (NCIB) to repurchase its shares. Yesterday Swiss Water announced that the Toronto Stock Exchange (TSX) had approved the NCIB. Swiss Water intends to purchase up to roughly 650k shares depending on market conditions and the price of its share. This would represent about 9.7% of its outstanding public float as of August 7, 2026 (total issued and outstanding shares as of August 7, 2026 was 9.59 million and the total public float was 6.68 million shares.). The NCIB is expected to launch on August 20, 2026 and end on August 19, 2027. The NCIB reflects management's view that the market price of its shares do not fully reflect the company's prospects.

Management believes it has sufficient cash flow and liquidity to manage operations and maintain growth initiatives and to support share repurchases under the NCIB. While rising product demand is driving high production capacity utilization at Swiss Water's plant in 2026, the company believes it has adequate production to support growth in the short-term and has identified targeted incremental investments to boost production in order to meet demand in the medium-term.

Balance sheet strengthening measures, with quarterly interest expense down 17% y/y

SWP is focused on optimizing its financial flexibility and also made progress in strengthening its balance sheet. SWP's operating credit facility maturity date was renewed on May 4, 2026, and extended by one year until June 2028. Moreover, SWP has repaid C$8.9 million of debt payment. Reflecting these measures, SWP has reduced quarterly interest expense by 17% year-over-year.

With Decaf segment growing, industry backdrop appears to be positive tailwind

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.

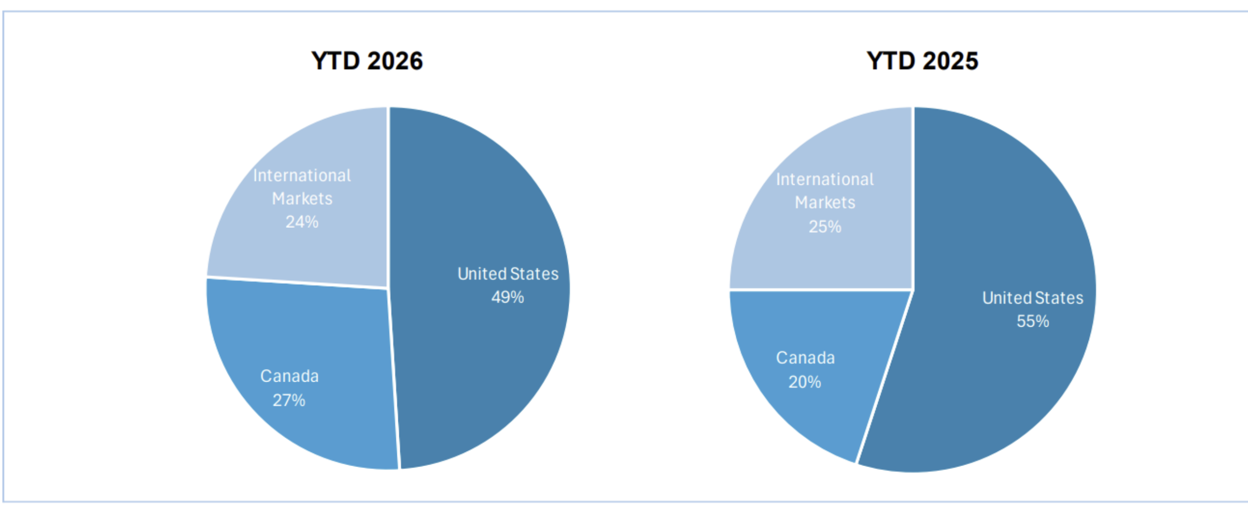
The decaf segment is growing and that trend is expected to continue, which we view as growth driver for Swiss Water. **Management estimates that its growth has consistently outpaced that of the overall decaf market, over the last 25 years, averaging 5% compared to 1-2%.** We believe that as the overall 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."

SWP process is natural & organic, as consumer demand for more healthful ingredients and products grows

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 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.

The company is also focused on expanding its global footprint. Coffee consumption is rising in many international markets. Although the U.S. is the largest market for coffee consumption in the world, reflecting the size of the population, per capita coffee consumption is rising in many countries, which we believe boosts SWP’s long-term prospects.



Source: [Swiss Water]

In advance of the company's annual general meeting (AGM) in May 2026, the company 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.

VALUATION

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. 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 raise our 2026 adjusted EBITDA forecast to C$18 million from C$14 million initially. Through 1H 2026, adjusted EBITDA was C$9.6 million. We expect multiple expansion over the long-term. As coffee prices and industry dynamics continue to improve and reflecting the company's share repurchase plan, we raise our near-term valuation to about C$10.00 per share.

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.

RECENT NEWS

- Swiss Water announced TSX approval for a share buyback under an NCIB on August 17, 2026.
- Swiss Water reported 2Q25 results on August 5, 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.

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	2Q26A	3Q26E	4Q26E	2026E
Revenue	62,272	67,695	62,747	66,005	258,719	57,452	65,971	63,374	66,665	253,463
COGs	54,985	62,447	56,307	57,989	231,728	49,539	55,793	54,120	56,620	216,072
Gross profit	7,287	5,248	6,440	8,016	26,991	7,913	10,178	9,254	10,045	37,390
Administration exp	2,435	2,962	3,341	2,500	11,238	3,249	4,358	4,362	4,406	16,375
Sales & marketing exp	954	902	885	953	3,694	1,050	1,535	1,061	1,550	5,196
Total OpEx	3,389	3,864	4,226	3,453	14,932	4,299	5,893	5,423	5,956	21,571
Operating income	3,898	1,384	2,214	4,563	12,059	3,614	4,285	3,831	4,089	15,819
Gain (loss) risk mgmt ac	(2,839)	(1,101)	(728)	(1,738)	(6,406)	(614)	(1,067)			
Gain (loss) fair value em	1,111	546		-	1,657					
Other gains				-						
Finance income	378	362	407	487	1,634	378	442			
Finance expense	(1,718)	(1,702)	(1,635)	(1,538)	(6,593)	(1,424)	(1,405)			
FX gain (loss)	(159)	(110)	144	(136)	(261)	(40)	926	-	-	886
Total other	(3,227)	(2,005)	(1,812)	(2,926)	(9,969)	(1,700)	(1,104)	(1,666)	(1,691)	(6,161)
Pretax income (loss)	671	(621)	402	1,637	2,090	1,914	3,181	2,165	2,397	9,658
Taxes	156	(247)	186	431	527	534	1,273	1,031	1,237	4,075
Net income (loss)	515	(374)	216	1,206	1,563	1,380	1,908	1,134	1,160	5,582
Net loss after effect of diluted securiti		(920)		826	(94)					
EPS	$0.05	($0.04)	$0.02	$0.13	$0.16	$0.14	$0.20	$0.12	$0.12	$0.58
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	9,592	9,496	9,496	9,544

Source: Company reports, Zacks estimates *Ex RUSs

HISTORICAL STOCK PRICE

Source: Yahoo Finance

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