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Zacks Small-Cap Research

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

SWP.TO: Believe Cash Flow Funded Capacity Expansion, Debt Reductions & Share Buybacks Highlight Business Momentum

Processed volumes are climbing as coffee prices normalize. SWP's processed volumes increased 16% y/y in 3Q26 & 11% in the 1st 9-months of '26. With strong booking visibility, SWP is optimistic about forward volume growth & plans to expand capacity in order to ensure that it can meet demand in the medium-term. We believe production capacity expansion, debt reductions & share buybacks from internally generated cash highlight the strength & momentum of SWP's business.

Current Price (11/9/26)	C$10.03
Valuation	**C$15.00**

OUTLOOK

Management believes it has sufficient cash flow and liquidity to manage operations, maintain growth initiatives, expand production capacity and repurchase shares, the latter reflecting SWP's view that the shares do not mirror company prospects. As decaf coffee consumption rises & interest in natural decaf grows, we believe FDA review of methylene chloride in the decaffeination process & EU regulators' increased risk assessment of methylene chloride are likely additional catalysts for SWP sustainable growth. Moreover, share buybacks underscore, we believe, SWP's optimism about its growth prospects.

SUMMARY DATA C$

52-Week High	**$4.25**
52-Week Low	**$10.20**
One-Year Return (%)	**121**
Beta	**1.20**
Average Daily Volume (sh)	**7,200**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$96**
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	**17**
P/E using 2026	**16**
P/E using 2027 Estimate	**13**

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)
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	66 A	67 E	256 E
2027					269 E

Loss/share or EPS (C$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
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	$0.10 A	$0.16 E	$0.61 E
2027					$0.78 E

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

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STRONG 3Q26 AS CUSTOMER DEMAND BUILDS

View debt reductions, share buybacks & production capacity expansion from internally generated cash as significant positives

Swiss Water Decaffeinated Coffee Inc. (OTC:SWSSF, TSX: SWP) reported strong 3Q26 results last week that reflect the strength in the company's business, in our view, and highlight its growth prospects. As the price of coffee appears to normalize in 2026, processed volumes are climbing. SWP's processed volumes increased 16% in 3Q26 compared to 3Q25. In the first nine months of 2026, SWP's processed volumes increased 11% compared to the same period of 2025. Reflecting the 3Q26 increase, revenue of $65.9 million advanced 5% year-over-year. The 3Q26 revenue increase primarily reflected the above-noted higher volumes and improved recovery of inversion expenses. These factors were partially offset by lower NY'C' coffee futures prices and reduced tariff costs charged back to customers.

SWP's 3Q26 gross profit was $10.0 million, which represents a 55% year-over-year increase, driven by increased volumes, improved recovery of inversion expenses, and efficiencies of scale including direct labor efficiencies, lower utility usage and rates, as well as FX rate changes. At the operating income line, these factors were partially offset by increased operating expenses primarily reflecting higher non-cash share-based compensation as the company's share price appreciated and also to the timing of professional fees.

As a result, 3Q26 net income was $0.9 million compared to $0.2 million in 3Q25. In addition to the improvement in gross profit, net income benefitted from lower net finance expense due to lower debt balances and better rates. Adjusted EBITDA was $4.9 million, some 50% higher compared to 3Q25. In the first nine months of 2026, adjusted EBITDA more than doubled (up 104% year-over-year) to $14.5 million. LTM adjusted EBITDA was $18.7 million, which represents a record for the company.

Demand growing, booking visibility strong & production facilities at record capacity utilization: to meet rising demand, 1H 2027 capacity expansion project planned

Growing demand for SWP coffee is boosting production capacity utilization in 2026 and the company's production facilities are operating at record levels of capacity utilization. While SWP has sufficient production capacity to support growth in the short term, with pricing firmer currently than in 2025, demand continues to build, according to the company. Moreover, given improving industry dynamics and customers' need to replenish and rebuild inventories, Swiss Water has booking visibility into several months ahead. The company is optimistic about volumes over the remainder of 2026 and into 2027 and has implemented a project to expand capacity in order to ensure that it can meet demand in the medium-term.

So that Swiss Water can meet growing demand as existing customers resume more normalized order patterns and also support new customer relationships, as the company expands its reach into new markets, the company intends to expand production capacity. SWP has a $6.2 million expansion project planned. This is designed to increase production capacity by 15% by June 2027.

In 2020, Swiss Water opened a new state-of-the-art production facility in the city of Delta, British Columbia to upgrade and expand production capacity. Reflecting growing demand and the need to increase capacity, Swiss Water completed the construction of its second production line in the facility in 2023 and has consolidated all production and operations at this plant, with both lines fully operational since 3Q23. The consolidation of operations in one location also enabled Swiss Water to obtain production efficiencies.

Now, growing demand for SWP coffee is boosting production capacity utilization again. SWP anticipates little to no disruption in capacity as the upcoming expansion is implemented. Construction is expected to start in 1Q 2027 and be completed by 2Q 2027 and operating commercially by 3Q 2027.

Industry fundamentals appear to be normalizing, as indicated by coffee futures contracts, which is the global benchmark for Arabica coffee. During 3Q26, the NY'C' averaged US$3.09/lb, compared to an average of US$3.37/lb in 3Q25, down 8%. Year to date, the NY'C' averaged US$3.01/lb compared to an average of US$3.57/lb in 2025, a decrease of 16%. The downward trend reflects improving crop harvests and elimination of tariffs, among other factors. Spot availability of green coffees remained low, however.

In an upward trending market, customers tend to draw down their own inventories rather than building them. When the NY'C' shows sustainable declines, customers tend to rebuild their inventories. SWP has seen customers accelerate replenishment of inventories and significantly extend their purchasing horizons.

Over the past several quarters, SWP has maintained inventory sufficient to meet customer shifting demand patterns and the company attributes its strong 3Q26 results to this strategy and climbing industry demand. SWP expects to maintain the strategy to carry higher levels of spot inventory to ensure availability of coffee for spot or immediate sales, as it continues to monitor export conditions from origin countries and supply chain dynamics.

Reflecting Swiss Water's optimistic outlook, the company filed notice of intention to launch a Normal Course Issuer Bid (NCIB) to repurchase its shares and the Toronto Stock Exchange (TSX) 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. This initiative reflects management's view that the market price of its shares do not fully reflect the company's prospects. The NCIB launched on August 20, 2026 and ends on August 19, 2027. During 3Q26, SWP repurchased and cancelled 3,000 shares. Management believes it has sufficient cash flow and liquidity to manage operations and maintain growth initiatives and to support share repurchases.

Balance sheet strengthening measures, with debt paydowns, share repurchases

SWP is focused on optimizing its financial flexibility and also has made progress in strengthening its balance sheet. During the first nine months of 2026, SWP repaid $9.0 million of borrowings on its credit facility and repaid $4.2 million of construction debt and $1.0 million on its EDC Credit Facility, which all reduced interest expense.

SWP's operating credit facility maturity date was renewed on May 4, 2026, and extended by one year until June 2028. Subsequent to September 30, 2026, the EDC Credit was renewed for one year and will mature on November 22, 2027. Upon maturity, any remaining balances will be transferred to the operating credit facility.

Decaf segment growing; *believe FDA/EU review of methylene chloride likely catalysts for SWP sustainable 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 consumption of cold coffee beverages growing rapidly.

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%. The company believes that roasters currently are still below normal weeks-of-sales coverage, but are rebuilding inventories, with tight inventory available in the chemical free coffee space driving roaster demand. 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.

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

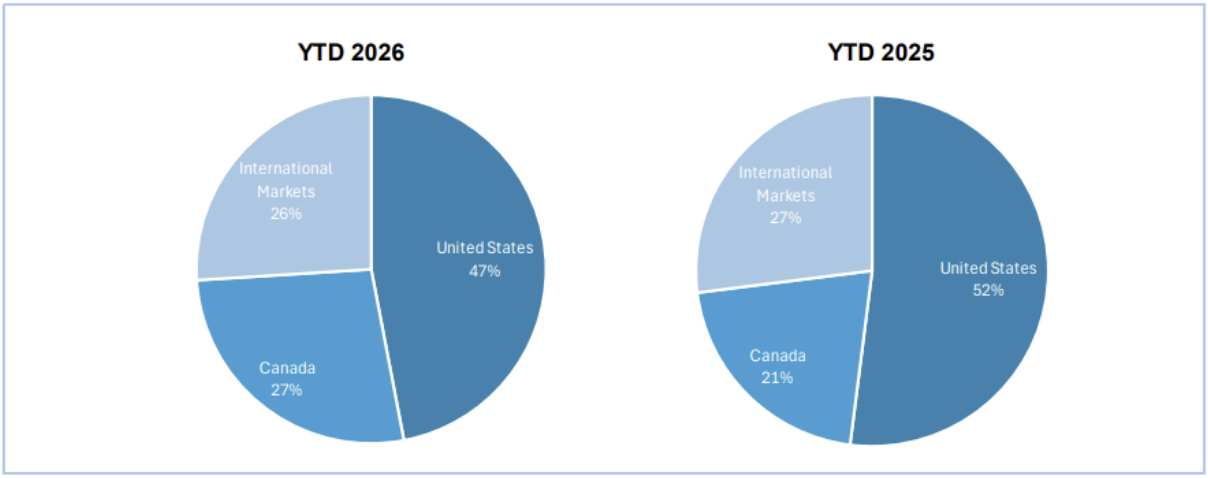
Reflecting consumer demand for more healthful ingredients and products, among other factors, it appears that many roasters incorporate that they rely on the use of the Swiss Water process in their brand advertising to consumers, using words such as "cleanest," and "healthiest" and "flavorful" in their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

Believe FDA / EU potential change in stance on methylene chloride likely additional catalysts for SWP sustainable growth

Importantly, Swiss Water's proprietary Swiss Water® Process is a chemical-free way to decaffeinate coffee. 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. However, as it is considered a possible carcinogen, many countries do not allow the importation of coffee that has been decaffeinated with it.

Now, the U.S. FDA is reviewing the use of methylene chloride in the decaffeination process. In addition, the EU Chemicals Agency Risk Assessment Committee has increased its risk assessment of methylene chloride. SWP believes these initiatives are contributing to growing global interest in cleaner decaffeination alternatives, with SWP positioned as one of only three global providers offering 100% chemical-free water processes for coffee decaffeination, according to Swiss Water. We believe FDA review and EU regulators' increased risk assessment of methylene chloride are likely additional catalysts for SWP sustainable growth.

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, per capita coffee consumption is rising in many countries, which we believe boosts SWP's long-term prospects.



Source: Swiss Water

VALUATION

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.

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.

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 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 use our newly released 2027 forecast to generate our valuation analysis. We lower our expected multiple as there is a longer period ahead to potentially achieve forward EBITDA. This leads to an expected valuation of about C$15 per share, up from C$10 earlier.

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 reported 3Q25 results on November 3, 2026.
- On September 16, 2026, SWP announced it will invest $6.2 million to expand production capacity.
- Swiss Water announced TSX approval for a share buyback under an NCIB on August 17, 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	3Q26A	4Q26E	2026E	2027E
Revenue	62,272	67,695	62,747	66,005	258,719	57,452	65,971	65,882	66,665	255,970	268,769
COGs	54,985	62,447	56,307	57,989	231,728	49,539	55,793	55,870	56,620	217,822	228,583
Gross profit	7,287	5,248	6,440	8,016	26,991	7,913	10,178	10,012	10,045	38,148	40,186
Administration exp	2,435	2,962	3,341	2,500	11,238	3,249	4,358	4,300	4,343	16,250	
Sales & marketing exp	954	902	885	953	3,694	1,050	1,535	1,380	1,550	5,515	-
Total OpEx	3,389	3,864	4,226	3,453	14,932	4,299	5,893	5,680	5,893	21,765	23,071
Operating income	3,898	1,384	2,214	4,563	12,059	3,614	4,285	4,332	4,152	16,383	17,115
Gain (loss) risk mgmt ac	(2,839)	(1,101)	(728)	(1,738)	(6,406)	(614)	(1,067)	(1,945)			
Gain (loss) fair value em	1,111	546		-	1,657						
Other gains				-							
Finance income	378	362	407	487	1,634	378	442	376			
Finance expense	(1,718)	(1,702)	(1,635)	(1,538)	(6,593)	(1,424)	(1,405)	(1,340)			
FX gain (loss)	(159)	(110)	144	(136)	(261)	(40)	926	(448)	-	438	-
Total other	(3,227)	(2,005)	(1,812)	(2,926)	(9,969)	(1,700)	(1,104)	(3,357)	(1,991)	(8,152)	(7,174)
Pretax income (loss)	671	(621)	402	1,637	2,090	1,914	3,181	975	2,160	8,230	9,941
Taxes	156	(247)	186	431	527	534	1,273	38	562	2,407	2,595
Net income (loss)	515	(374)	216	1,206	1,563	1,380	1,908	937	1,599	5,824	7,346
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	$0.10	$0.16	$0.61	$0.78
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	9,591	9,583	9,590	9,340

Source: Company reports, Zacks estimates *Ex RUSs

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HISTORICAL STOCK PRICE



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Source: Yahoo Finance

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