



Ten Peaks Coffee Company

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NEWS RELEASE: via The Canadian Select Disclosure Network and SEDAR  
For release: **November 13, 2017 at 2:00 pm Pacific (5:00 pm Eastern)**

***Ten Peaks Coffee Company Reports Results for Third Quarter and YTD 2017  
Record-Setting Quarterly Volumes Contribute to Strong Results for Both Periods***

*Ten Peaks Coffee Company Inc. (TSX – TPK) will hold a conference call to discuss its financial results for the three and nine months ended September 30, 2017, tomorrow, **November 14<sup>th</sup> at 9:00am Pacific Time (12:00pm Eastern Time)**. To participate, please dial (866) 682-6100 (toll free) or (404) 267-0373 (international) approximately five minutes before the call and provide the company name. A replay will be available through November 28<sup>th</sup>, 2017 at (877) 481-4010 (toll free) or (919) 882-2331 (international) passcode: 22593.*

VANCOUVER, BC, November 13, 2017/ Marketwired / Ten Peaks Coffee Company Inc. (“Ten Peaks” or “the company”) today reported financial results for the three and nine months ended September 30, 2017. The three-month period represents the third quarter of the company’s 2017 fiscal year. Ten Peaks is a leading specialty coffee company doing business through two wholly owned subsidiaries: Swiss Water Decaffeinated Coffee Company, Inc. (“SWDCC”) and Seaforth Supply Chain Solutions Inc. (“Seaforth”), the company’s green coffee handling and storage subsidiary. SWDCC is a premium green coffee decaffeinator located in Burnaby, BC, which employs the proprietary SWISS WATER® Process to decaffeinate green coffee without the use of chemicals. This is the company’s primary business, and the results reported here reflect SWDCC’s operating performance.

Ten Peaks recorded strong financial results for the three and nine months ended September 30, 2017. During the third quarter, revenue, net income and EBITDA were up over 2016. For the year-to-date, the company recorded year-over-year gains in revenue, gross profit, operating income, net income and EBITDA. In both periods, the results were driven by significant volume growth, with third quarter shipments the highest recorded in SWDCC’s history.

*“Throughout 2017, we have continued to increase our share of the decaffeinated coffee market as more people choose our amazing coffees without caffeine,” said Frank Dennis, President and CEO of Ten Peaks Coffee Company Inc. “Our market research indicates that the decaffeinated coffee category is growing faster than total coffee. Importantly, our sales volumes are growing much faster than overall growth in the decaf category and this increased demand for our products is resulting in improved financial performance.”*

### Performance Highlights

<i>In \$000s except per share amounts (unaudited)</i>	<b>3 months ended</b>		<b>9 months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Sales	\$ 21,955	\$ 20,752	\$ 63,093	\$ 59,478
Gross profit	3,014	3,219	9,413	8,835
Operating income	1,117	1,330	3,856	3,490
EBITDA <sup>(1)</sup>	1,678	1,515	5,593	3,773
Net income	1,385	879	4,541	2,820
Earnings per share, <sup>(2)</sup> basic	0.15	0.10	0.50	0.31
Earnings per share, <sup>(2)</sup> diluted	0.15	0.10	0.41	0.31

(1) EBITDA is calculated and defined in the section on 'Non-IFRS Financial Measures' below.

(2) Per-share calculations are based on the weighted average number of shares outstanding during the period.

SWDCC's total volumes shipped rose by 11% during Q3 and by 10% for the year-to-date. Looking at volumes by customer type, shipments to importers rose by 39% in Q3 and by 27% in the first nine months of this year, while shipments to roasters increased by 3% in the third quarter and by 1% for the year-to-date. Volumes to commercial accounts were unchanged in the third quarter and were up by 7% for the year-to-date. Volumes to specialty accounts grew significantly, increasing by 33% in the third quarter and by 14% for the year-to-date.

During the first nine months of this year, the New York 'C' (or NY'C') coffee futures price averaged US\$1.36/lb compared to US\$1.31/lb in the first nine months of 2016. However, while the NY'C' was higher on average, it has trended downward through 2017. This has had a positive impact on SWDCC's business, contributing to its higher year-over-year volumes. When the coffee commodity price declines over a sustained period, customers tend to add to their inventories.

Higher volumes boosted revenues for both the third quarter and year-to-date. Third quarter sales totaled \$22.0 million, an increase of \$1.2 million, or 6%, over the same period last year. Process revenue (the amount SWDCC charges its customers for decaffeinating green coffee) increased by 11%, reflecting the strong increase in sales to specialty customers, as well as higher volumes. Hedge gains also boosted process revenue during the quarter. Green revenue (the amount SWDCC charges its customers for the green coffee it purchases for decaffeination) increased by 3%, reflecting higher volumes. Distribution revenue (the shipping, handling and warehousing charges billed to customers) rose by 15%, due to higher volumes and growth in Seaforth's business.

Nine-month sales totaled \$63.1 million, an increase of \$3.6 million, or 6%, over the same period last year. Process revenue increased by 8%, due to higher volumes and hedge

gains. Green revenue increased by 5%, due to higher volumes, and distribution revenue rose by 14%, with higher volumes and growth in Seaforth's business driving the increase.

Cost of sales for the third quarter grew by 8% to \$18.9 million, due to higher volumes and a higher US dollar ("US\$") earlier in the year, when the coffee was purchased. Nine-month cost of sales was \$53.7 million, up by \$3.0 million, or 6% over the same period last year. The increase was driven by higher volumes, a higher NY'C' and a stronger US\$ earlier in the year.

Gross profit decreased by 6% in the third quarter. This was primarily due to the rapid decline of the US\$ during the period, which caused SWDCC to sell green coffee at a lower US\$/C\$ exchange rate than it had purchased the coffee for. Gross profit for the year-to-date increased by 7%, as higher revenues more than offset the increases in cost of sales.

Sales and marketing expenses declined by 6% to \$0.6 million in Q3 2017, largely due to timing differences in marketing and promotion activities. Sales and marketing expenses rose by \$0.1 million, or 7%, for the year-to-date, due to increased marketing activities in support of SWDCC's growth initiatives.

Administration expenses increased by 4% to \$1.2 million in the third quarter and by 3% to \$3.6 million for the year-to-date. In both periods, the increases related to higher share-based compensation expense.

Operating income was down by 16% to \$1.1 million for the third quarter, due to lower gross profit in the period. For the year-to-date, operating income rose by \$0.4 million, or 10%, to \$3.9 million, as higher gross profit in the period more than offset the increased operating expenses.

Net income for the third quarter increased by 58% to \$1.4 million and by 61% to \$4.5 million for the year-to-date, compared to the same periods last year. In the quarter, somewhat lower operating income was offset by gains on foreign exchange in the period. For the first nine months of 2017, increased volumes and operating income, gains on risk management activities and a fair value adjustment boosted net income compared to 2016.

EBITDA for the third quarter increased by 11% to \$1.7 million. For the year-to-date, EBITDA rose 48% to \$5.6 million, driven by higher volumes as well as improved performance on risk management activities.

### **Outlook**

A number of factors support an expectation of ongoing growth in SWDCC's (and therefore Ten Peaks') business. Recent market research from the National Coffee Association<sup>1</sup> shows that decaffeinated coffee is the fastest growing segment of the US coffee market.

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<sup>1</sup> [National Coffee Association](#) 2017 Coffee Drinking Trends

Total decaffeinated coffee sales are up year-over-year, and specialty decaffeinated coffee sales are particularly strong, especially in out-of-home markets.

Management believes this is due, in part, to the premiumization of the coffee market, as well as growing awareness and consumption of premium decaffeinated coffee. The largest consumers of decaffeinated coffee are 18-to-24 year olds<sup>2</sup>, who want to drink great-tasting coffee all day long, without worrying about the potential side effects of caffeine.

Additionally, younger consumers are more conscious of artificial ingredients and chemicals. As a result, an increasing number of food companies now employ SWDCC's branded, sustainable and organically certified SWISS WATER® Process coffees to help them respond to this growing consumer demand.

*"Recently, various media sources, including the New York Times, have highlighted the health and environmental hazards associated with methylene chloride – the primary chemical used by our competitors to decaffeinate coffee," said Dennis. "In response, our marketing team is leveraging this heightened consumer awareness of the potential dangers of chemical decaf to draw attention to our premium quality, 100% chemical free SWISS WATER® Process coffees. We believe this will further stimulate market demand as more people learn about, and then seek out, our amazing coffees without caffeine."*

In addition to consumer-driven trends, changes in the global decaffeination market are enhancing SWDCC's growth prospects. An older decaffeination plant in Europe closed recently, reducing available chemical free, third-party decaffeimators. SWDCC has already won some additional business from coffee companies affected by this shutdown, with additional growth expected in the future.

As noted previously, Ten Peaks is building a new state-of-the-art production facility that will enable the company to meet the anticipated long-term growth in demand for its decaffeinated coffees. Construction of the facility, which will be located in Delta, BC, began in May 2017 and is expected to be completed in 2018. Initially, the plant will house one new production line, although the site is large enough for expansion to meet growing demand well into the future. Construction of the new production line is expected to be completed in early 2019 and commissioned in the first half of 2019. The additional capacity that was added at Ten Peaks' Burnaby, B.C. facility in Q1 2016 is expected to be sufficient to meet anticipated growth in demand until the new line is operational.

### **Quarterly Dividends**

On October 16, 2017, Ten Peaks paid an eligible quarterly dividend of \$0.0625 per share to shareholders of record on September 29, 2017.

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<sup>2</sup> [National Coffee Association](#) 2017 Coffee Drinking Trends

## Non-IFRS Financial Measures

### EBITDA

Ten Peaks defines EBITDA as net income before interest, depreciation, amortization, impairments, share-based compensation, gains/losses on foreign exchange, gains/losses on disposal of capital equipment, fair value adjustments on the embedded option, and provision for income taxes. EBITDA also excludes unrealized gains and losses on the undesignated portion of foreign exchange forward contracts.

The reconciliation of net income to EBITDA is as follows:

(In \$000s)  
(unaudited)

	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Income for the period	\$ 1,385	\$ 879	\$ 4,541	\$ 2,820
Income taxes	186	396	1,153	1,002
Income before tax	1,571	1,275	5,694	3,822
Finance (income) expense	251	(50)	640	(188)
Depreciation & amortization	531	526	1,589	1,457
Unrealized (gain) loss on foreign exchange forward contracts	(151)	(519)	(782)	(1,147)
Fair value (gain) loss on embedded option	56	-	(909)	-
(Gain) loss on foreign exchange	(633)	202	(745)	(24)
Share-based compensation	52	81	105	(147)
<b>EBITDA</b>	<b>\$ 1,678</b>	<b>\$ 1,515</b>	<b>\$ 5,593</b>	<b>\$ 3,773</b>

In addition, the reconciliation of EBITDA to operating income is as follows:

(In \$000s)  
(unaudited)

	3 months ended September 30, 2017	3 months ended September 30, 2016	9 months ended September 30, 2017	9 months ended September 30, 2016
Operating income for the period	\$ 1,117	\$ 1,330	\$ 3,856	\$ 3,490
<b>Add back:</b>				
Depreciation & amortization	\$ 531	\$ 526	\$ 1,589	\$ 1,457
Share-based compensation	\$ 52	\$ 81	\$ 105	\$ (147)
Gain (loss) on risk management activities	\$ 128	\$ 97	\$ 825	\$ 120
<b>Deduct:</b>				
Unrealized (gain) loss on undesignated hedging instruments	\$ (151)	\$ (519)	\$ (782)	\$ (1,147)
<b>EBITDA</b>	<b>\$ 1,678</b>	<b>\$ 1,515</b>	<b>\$ 5,593</b>	<b>\$ 3,773</b>

### **Additional Information**

A more detailed discussion of Ten Peaks' recent financial results and management's outlook can be found in the company's MD&A for the three and nine months ended September 30, 2017. This document, along with Ten Peaks' condensed consolidated interim financial statements, will be posted on SEDAR ([www.sedar.com](http://www.sedar.com)) and on the company's website (<http://www.tenpeakscoffee.ca>) on November 13, 2017.

Readers are cautioned that the summary information contained in this press release is not a suitable source of information for readers who are unfamiliar with Ten Peaks. This press release should be considered a precursor to, and not a substitute for, reading the financial



statements and MD&A, which provide more detailed information related to the company's performance and future prospects.

### ***Company Profile***

Ten Peaks is a publicly traded company that owns all of the interests of the Swiss Water Decaffeinated Coffee Company Inc. (SWDCC), a premium green coffee decaffeinator located in Burnaby, BC. It also owns and operates Seaforth Supply Chain Solutions Inc. (Seaforth), a green coffee handling and storage business located in Metro Vancouver.

#### **About SWDCC**

SWDCC employs the proprietary SWISS WATER® Process to decaffeinate green coffee without the use of chemicals, leveraging science-based systems and controls to produce amazing coffee that is 99.9% caffeine free. The SWISS WATER® Process is a 100% chemical free water process for coffee decaffeination, as well as the world's only consumer-branded decaffeination process. It is certified organic by the Organic Crop Improvement Association.

SWISS WATER® Process decaffeinated green coffees are sold to many of North America's leading specialty roaster retailers, specialty coffee importers and commercial coffee roasters. SWDCC also sells coffees internationally through regional distributors.

#### **About Seaforth**

Seaforth provides a complete range of green coffee logistics services including devanning coffee received from origin; inspecting, weighing and sampling coffees; and storing, handling and preparing green coffee for outbound shipments. Seaforth's warehouse and handling operation is certified organic by Ecocert Canada.

### ***For more information, please contact:***

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### ***Forward-Looking Statements***

*Certain statements in this press release may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. When used in this press release, such statements may include such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance, as well as management's current*



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*estimates, but which are based on numerous assumptions and may prove to be incorrect. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties, including, but not limited to, risks related to processing volumes and sales growth, operating results, supply of coffee, general industry conditions, commodity price risks, technology, competition, foreign exchange rates, construction timing, costs and financing of capital projects, and general economic conditions.*

*The forward-looking statements and financial outlook information contained herein are made as of the date of this press release and are expressly qualified in their entirety by this cautionary statement. Except to the extent required by applicable securities law, Ten Peaks Coffee Company Inc. undertakes no obligation to publicly update or revise any such statements to reflect any change in management's expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those described herein.*