MOODY'S
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Credit Opinion: Barry Callebaut AG

Global Credit Research - 24 Feb 2011

Switzerland

Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating	Ba1
Barry Callebaut Services N.V.	
Outlook	Stable
Senior Unsecured -Dom Curr	Ba1/LGD4

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Key Indicators

[1]**Barry Callebaut AG**

	2010	2009	2008	2007	2006	2005
EBITA Margin	7.1%	6.9%	6.9%	7.5%	7.8%	6.0%
Debt / EBITDA	3.0x	3.3x	3.8x	3.6x	3.7x	4.0x
RCF / Net Debt	19.8%	16.0%	15.3%	15.5%	11.9%	15.0%
FCF / Debt	-1.7%	9.9%	-8.5%	1.0%	-0.6%	7.7%
EBIT / Interest Expense	4.6x	3.3x	3.0x	3.2x	3.1x	3.0x
FFO / Net Debt	24.6%	20.3%	19.1%	19.2%	14.8%	18.0%

[1] All ratios adjusted according to "Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations - Part II" Rating Methodology located at www.moodys.com

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Corporate Profile

Barry Callebaut AG is a fully integrated company and the world's leading supplier of cocoa and chocolate products. The company reported annual sales of CHF5.2 billion (around EUR 3.6 billion) for fiscal year (FY) 2009/2010. Barry Callebaut is present in 26 countries, operates 40 production facilities and employs around 7,500 people.

Rating Rationale

Barry Callebaut's Ba1 corporate family rating (CFR) reflects the company's relatively solid business profile, characterised by its market leadership, diversified product portfolio and highly predictable margins. Barry Callebaut has reported improved credit metrics in the last three years, except for ratios based on cash flows after working capital. Although Barry Callebaut manages to smooth the impact of cocoa prices volatility on its margins thanks to its cost-plus business model, the impact on working capital and liquidity remains a constraint.

The rating on the senior unsecured notes is Ba1, at the same level as the CFR, given the limited amount of secured debt. The notes rank pari passu with all other unsecured debt, including the EUR850 million credit facility.

Recent Developments

On 12 January 2011, Barry Callebaut reported a 5.6% sales volume increase for the first three months of FY 2010/2011, and a 14.2% revenues increase in local currencies, with growth stemming from all regions and all product groups except for consumer products. Sales in the consumer products division, which Barry Callebaut looks to divest, declined by 16.1% (6% in local currencies) in Q1 2010/2011 to CHF204.1 million. Underperformance in consumer products was mainly due to strong promotion activities in the German market for tablets. In reporting currency, total revenues grew by only 4.9% in the period as a result of the appreciation of the Swiss franc against major currencies.

Cocoa bean prices are currently impacted by political instability in Ivory Coast, the largest producer of cocoa bean. On 23 February 2011, Alassane Ouattara, the internationally recognised winner of the November 28 presidential election in Ivory Coast, extended the country's ban on cocoa exports to mid-March 2011. However, Barry Callebaut has stated that it had sufficient stock to serve its current processing needs.

Rating Drivers

The key factors influencing Barry Callebaut's current ratings are as follows:

Global footprint but European prevalence remains

Barry Callebaut's ratings reflect its established presence in all major global markets, with increasing presence in new markets such as Russia, Brazil and China - where it has built new capacity - and India. We view Barry Callebaut's investments in developing markets as opportunities to diversify its revenue sources and to support the company's growth strategy. The company has indicated that it intends to achieve 6% to 8% volume growth per annum until 2012/2013. The global long-term agreement signed with Kraft Foods in September 2010 will lead it toward achieving these growth targets and further revenue diversification. For now though, Europe remains Barry Callebaut's first source of revenues. In the first quarter of FY 2010/2011, sales in Europe represented approximately 58% of the total.

Above-market performance and predictable margins

Barry Callebaut's ratings also reflect its relatively resilient performance in terms of volume growth compared with the global chocolate market. The company reported volume growth of 7.6% during FY 2009/2010 while the global chocolate market remained almost flat. Thanks to its broad product offering, as well as innovative products and recipes offered to customers, including premium but also value-for-money products, the company was able to mitigate the decrease in consumer spending. Furthermore, the presence in emerging markets, as well as, the implementation of long term outsourcing agreements have contributed to achieve a faster growth than the market and they should support the future growth of the company.

Cocoa, dairy products and sugar are primary raw materials that Barry Callebaut sources. Despite volatile cocoa prices and high sugar prices, the company's EBITA margin slightly increased in 2009/2010 to 7.1% from 6.9% the previous year, benefiting from its cost-plus model, which covers approximately 80% of its sales volumes. In addition, the acceleration in outsourcing volumes had a positive impact on Barry Callebaut's profitability, offsetting the decrease in the combined cocoa ratio (the combined sale prices of cocoa butter and cocoa powder relative to the cocoa bean price) in the first half of FY 2009/2010. We positively view Barry Callebaut's cost-control initiatives aimed at mitigating potential margin erosion in both mature markets and emerging markets.

However, operating margin improvement does not mechanically translate into increased cash flows due to uneven swings in working capital.

History of volatile changes in working capital

Cocoa bean is an agricultural commodity that can be vulnerable to crop-yield variations due to bad weather conditions, natural disasters and plant diseases. Thus, cocoa price can fluctuate significantly to reflect supply shortages. Investor speculation and trade restrictions can also affect the cost of Barry Callebaut main raw material. A material and swift increase in cocoa prices, as experienced in the last couple of years, often results in unfavourable swings in working capital, requiring costly facilities to cover variable and unpredictable needs. In spite of its efforts to diversify and to build strong business relations with cocoa farmers, the company's business profile remains constrained by its heavy reliance on several politically unstable countries for sourcing cocoa such as Ivory coast. The susceptibility of Barry Callebaut's cash flows to sudden increases in raw material prices has been and continues to be one of the main rating constraints for the company.

Liquidity

The company's liquidity requirements are significant and difficult to predict because of the volatility of cocoa prices, which can be impacted by weather conditions, investor speculation and political events.

At the end of FY 2009/2010, CHF805 million of the revolving credit facility remained available to Barry Callebaut. We expect the majority of the revolving facility to remain undrawn over its life and to provide a back-up to the company's asset-backed security (ABS) and commercial paper (CP) programmes, which amounted to CHF255 million and CHF70 million, respectively, at the end of August 2010.

We assume that the company will maintain sufficient liquidity to fund its growth strategy, but also to cover potentially higher levels of volatility in working capital cycles.

Structural Considerations

Barry Callebaut's capital structure is composed of EUR350 million of senior unsecured notes due 2017 and EUR850 million revolving credit facility due 2012 (17%) and due 2013 (83%). The notes and the revolving credit facility (RCF) were issued at Barry Callebaut Services N.V. and are guaranteed by Barry Callebaut AG and certain of its subsidiaries.

The Ba1 rating on the senior unsecured notes, is at the same level as the CFR, given the limited amount of secured debt. The notes rank pari passu with all other unsecured debt, including the RCF.

Rating Outlook

The stable outlook reflects Moody's expectation that Barry Callebaut's market position and innovative capabilities will enable it to maintain profitability in line with its current rating, despite difficult market conditions.

What Could Change the Rating - Up

Positive pressure on Barry Callebaut's rating and outlook may result from the ability of the company to maintain an RCF/net debt ratio close to 20% and EBITA margins in the high-single digits, leading to a debt/EBITDA ratio of close to 3.5x on a sustainable basis.

What Could Change the Rating - Down

The company's ratings or outlook could face negative pressure from a deterioration of the company's margins, leading to a debt/EBITDA ratio above 4.5x and an RCF/net debt ratio below the mid-teens.

Rating Factors

Barry Callebaut AG

Global Food - Protein and Agriculture Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Size, Scale and Diversification							
a) Total Sales (USD)				4.9 bln			
b) Geographic Diversification - Sales			X				
c) Geographic Diversification - Raw Materials					X		
d) Segment Diversification						X	
Factor 2: Franchise Strength and Growth Potential							
a) Market Share				X			
b) Organic Volume Growth				X			
c) Product Portfolio Profile				X			
Factor 3: Earnings Volatility							
a) Worst One Year Change in EBITA Over Past 5 Years		X					
Factor 4: Liquidity Under Stress							
a) Liquidity Under Stress (not disclosed)							
Factor 5: Financial Policy							
a) Financial Policy Assessment					X		
Factor 6: Financial Measures							
a) CFO / Net Debt (3-year average)						15.4%	
b) Debt / EBITDA (3-year average)					3.3x		
c) RCF / Net Debt (3-year average)					16.9%		
d) EBITA / Interest Expense (3-year average)					3.6x		
e) (RCF-Capex) / Debt (3-year average)						5.3%	
Rating:							
a) Indicated Rating from Grid					Ba1		
b) Actual Rating Assigned					Ba1		