MOODY'S INVESTORS SERVICE

Credit Opinion: Barry Callebaut AG

Global Credit Research - 05 Aug 2011

Switzerland

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	Baa3
Barry Callebaut Services N.V.	
Outlook	Stable
Senior Unsecured -Dom Curr	(P)Baa3/LGD4

Contacts

Analyst	**Phone**
Tanya Savkin/London	44.20.7772.5454
Douglas Crawford/London	
Chetan Modi/London	

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 (Barry Callebaut) is the world's leading supplier of premium cocoa and chocolate products, servicing customers across the wide spectrum of the global food industry. Barry Callebaut is fully integrated from the sourcing of raw material through the production of semi-finished products and further production of processed industrial chocolate products. The company is divided into three strategic business units: Cocoa Products (sourcing of cocoa and processing of semi-finished products), Food Manufacturers (production of industrial chocolate products for packaged food manufacturers) and Gourmet & Specialties (supplying restaurants, bakeries, hotels).

Barry Callebaut reported annual sales of CHF5.2 billion (around EUR 3.6 billion) for fiscal year (FY) 2009/2010. It is present in 26 countries, operates 40 production facilities and employs around 7,500 people.

Rating Rationale

Barry Callebaut's Baa3 issuer rating is supported by the company's established presence in all major global markets, and its focus on diversifying the current Europe-based revenues towards new markets such as Russia, Brazil, China and India which typically display higher growth prospects.

The company's rating also reflects the resilience of its hedging policy to volatile cocoa bean prices. The company's cost-plus business model, which covers around 80% of its sales volumes, has proved successful in recent years and enabled it to sustain relatively stable operating margin levels while cocoa bean prices more than doubled since 2008.

More negatively, Barry Callebaut's rating is constrained by the company's reliance on politically unstable countries such as Ivory Coast for the supply of cocoa beans, its main raw material. Although we recognise Barry Callebaut's efforts to diversify the sourcing of cocoa beans outside of Ivory Coast, we nonetheless stress that the company is exposed to supply disruption risks inherent to the industry.

The EUR350 million and the EUR250 million senior unsecured notes issued by Barry Callebaut Services NV, a subsidiary of Barry Callebaut AG, are rated (P)Baa3.

Rating Drivers

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

Emerging markets and outsourcing trends support Barry Callebaut's above-market volume growth

Barry Callebaut continued to grow faster than the market in the first half of 2010/2011 (i.e. half year ended February 2011), the company reported above-market-average sales volume growth of 7.1%, driven by increasing demand for chocolate products from emerging markets and by new outsourcing agreements.

Although Europe remains Barry Callebaut's biggest source of revenues, accounting for more than half of total sales, the company is focusing on new markets such as Russia, Brazil, Mexico and China - where it has built new capacity - and India. We view Barry Callebaut's investments in developing markets as opportunities to geographically diversify its revenues and to support the company's growth strategy.

Branded packaged food manufacturers such as The Hershey Company (rated A2 stable) are increasingly outsourcing part of their production against the background of constraints on return on assets, volatility of working capital and further focus on brand marketing. This outsourcing trend is also mirrored in Barry Callebaut's recent additional agreements with Kraft (Baa2, stable outlook), Green Mountain Coffee Roasters (Ba3, stable outlook) and Chocolates Turin.

Given Barry Callebaut's strong pipeline of outsourcing contracts and continued attractive growth in chocolate consumption outside of mature markets, we anticipate that the company will be able to achieve its targets of 6-8% volume growth per annum until fiscal year 2012/2013.

In addition, growth prospects appear more favourable after Barry Callebaut agreed to sell its European Consumer Products business to Belgian family-owned Sweet Products/Baronie Group (unrated). The completion of the sale is expected to take place in fall 2011. The European Consumer Products division, which offers private labelled and branded chocolate products to food retailers and represents about 10% of the company's total volumes sales, has been under pressure for the past couple of years owing to strong competition from value retailers, especially in Germany. The financial details of the sale have not been disclosed but we expect the company to use any cash proceeds to reduce utilisation under its revolving credit facility.

Hedging strategy and cost-control initiatives underpin predictability in margins

Barry Callebaut's Baa3 rating is also supported by the company's track record in terms of predictability in operating margins in spite of volatile cocoa bean prices which more than doubled since 2008. The company hedges cocoa price risks via futures and forward contracts from the time the customer's order is received. The selling price established for the client at the delivery date is based on the forward price at the order date, thereby eliminating risks associated with cocoa price volatility.

Barry Callebaut's cost-plus business model, which covers approximately 80% of its sales volumes, enable the company to pass raw material price increases onto its clients and therefore limits its exposure to raw material cost inflation.

In addition, we view positively Barry Callebaut's constant focus on reduction of production costs. We expect Barry Callebaut's operating profitability to further improve with the step up in capacity utilisation as volumes from outsourcing agreements rise.

Although Barry Callebaut has proved its ability to sustain stable operating profits through periods of cocoa price volatility, its business remains vulnerable to supply shortage.

Barry Callebaut's rating is constrained by cocoa supply disruption risks inherent to the industry

The main cocoa-growing areas are West Africa (around 70% of world supply), South America and South East Asia. The cocoa market is very concentrated, with Ivory Coast accounting for around one-third of global output of cocoa beans. In addition to the risk of plant disease epidemics and unfavourable climate, which can negatively impact crop yield, the political risk in the main producing countries is not negligible.

In spite of Barry Callebaut's 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 political uprising in Ivory Coast and the consequent EU ban on that country's cocoa exports, which lasted from January 2011 to April 2011, was imposed after the main crop was harvested, and therefore had only a limited impact on Barry Callebaut's operations.

Barry Callebaut's reliance on politically unstable countries for cocoa beans supply is negative for the rating although we recognise that it is an industry-related rather than a company-related issue.

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.

A material and sharp increase in cocoa prices, as experienced in recent years, often results in unfavourable swings in working capital, requiring credit facilities to cover variable and unpredictable needs.

Barry Callebaut's liquidity sources, consisting of the new EUR 600 million revolving credit facilities as well as EUR 400 million commercial paper and EUR 275 million asset-backed security programmes, are considered sufficient to fund its growth strategy and to cover potentially high levels of working capital due to fluctuations in cocoa prices.

The new revolving credit facility has a tenor of five years, with two one-year extension options at the discretion of the banks, and incorporates a EUR 75 million swingline facility for general corporate and working capital purposes. It also includes an `accordion' option (at the discretion of the banks), potentially increasing the facility amount to EUR 750 million.

The new revolving credit facility is subject to the following maintenance covenants (to be tested on a semi-annual basis): (i) an interest coverage ratio, (ii) profitability ratio and (iii) minimum tangible net worth. The new set of covenants provides Barry Callebaut with greater flexibility given the absence of cash-based ratios which can fluctuate with working capital cycles.

Rating Outlook

The stable outlook reflects our expectation that the company will maintain its solid market position and improve its credit metrics in line with its rating category, including a prudent dividend policy. In addition, we expect that the company will use any disposal proceeds to repay debt.

What Could Change the Rating - Up

Positive pressure could be exerted on the ratings or the outlook could be changed to positive from stable if the company (i) improves its operating margins close to double-digit levels, (ii) further reduces its adjusted gross debt-to-EBITDA ratio to below 2.5x and (iii) increases its retained cash flow-to-net debt ratio to above 25%; all in conjunction with increased diversification of raw materials supply.

What Could Change the Rating - Down

Negative pressure could be exerted on the ratings if the company fails to maintain (i) its operating margins at high single-digit levels, (ii) its debt-to-EBITDA ratio below 3.0x and (iii) retained cash flow-to-net debt ratio well below 20%; or in the event of renewed concerns over supply risk.

Other Considerations

Barry Callebaut's Baa3 issuer rating is one notch above the indicated rating from the methodology grid for Global Food - Protein and Agriculture industry. The one-notch differential reflects our expectations that the company's credit metrics will improve in the near to medium term and move towards the Baa range.

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				Baa3			

*Based on August 2010 audited financial statements

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