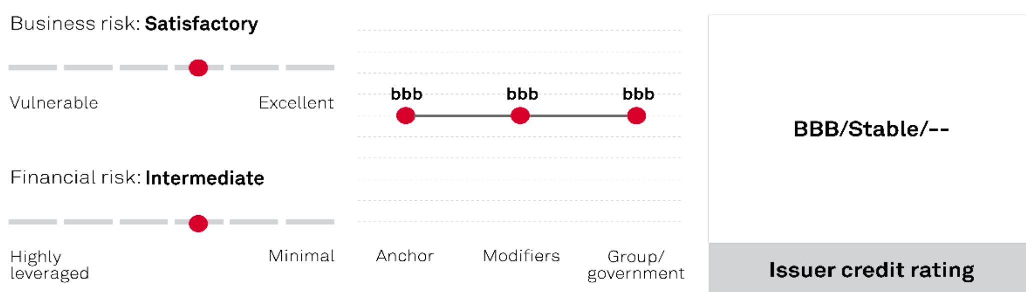
Barry Callebaut AG

May 4, 2023

Ratings Score Snapshot



PRIMARY CONTACT

Paloma Aparicio
Madrid
34-91-423-3207
paloma.aparicio
@spglobal.com

SECONDARY CONTACT

Maxime Puget
London
44-7890-900-242
maxime.puget
@spglobal.com

Credit Highlights

Overview

Key strengths	Key risks
Global leader in cocoa processing and chocolate manufacturing with strong innovation and sustainability capabilities.	Cocoa beans sourced from high-risk countries but long track record of sourcing ability and diversification efforts.
Profit stability, given a wide and diverse customer base and a cost-plus pricing model for a sizable part of the business.	Lower demand growth prospects in the Americas, given a destocking effect.
Growth potential, thanks to new outsourcing contracts, penetration of emerging markets, and expansion of the gourmet division.	Cocoa processing is relatively low margin and subject to volatile commodity prices.
Track record of positive free operating cash flow (FOCF) and forecast stable adjusted debt leverage of 2.0x-2.5x.	Large intrayear working capital swings.
Consistent dividend policy and focus on small acquisitions.	

Despite weaker consumer demand and a slower recovery in sales volume in the first half of the year, we believe Barry Callebaut will maintain revenue growth and stable profitability. We expect sales growth during 2023 to be more moderate during the year, with low volume growth offset by price increases. This comes after the company announced weaker-than-expected volume growth with a decline of 3% of sales volume in the first half of fiscal 2023 versus the prior year (end of fiscal year on Aug. 31), which was a strong comparable. We believe the growth was a result of the closing of the Wieze facility, impacting especially its Gourmet & Specialty segment in the first quarter and a weaker-than-expected consumer demand in the first half, given the slower client order. Although the company has recovered quickly from the one-off impact on its Wieze manufacturing facility, we expect consumer demand to recover more gradually during the year, given inflationary pressures persisting globally and slower demand orders after a destocking effect impacting the Americas, which represent a third of its sales volume. Having said that, we continue to anticipate the company will surpass moderate volume evolution during the year with price increases and efficiency measures to continue delivering on its profitable growth according to its plan.

Barry Callebaut's business has proven to have a very stable profitability compared with most agribusiness peers. Over 2023-2025, we project the adjusted EBITDA margin to be around 11.0%-11.5% on average (above the five-year average of 10.8%) and return on capital stable at around 13% (in line with the five-year average). This is thanks to its pass-through pricing structure on its main chocolate business for food and beverage manufacturers (70% of sales volume), which mostly offsets potential raw materials cost inflation from cocoa beans, sugar, and dairy, as well as energy and transportation costs that represent 80%-90% of variable costs. We also note the company's pricing power in the Gourmet & Specialties division given the value-added nature of the products in this category, which will more than offset volume declines.

We also view as important Barry Callebaut's operating track record, backed by the company's strong sourcing capabilities of cocoa beans from high-risk countries in West Africa such as Ivory Coast (45% of cocoa world production) and long-established relationships with local farmers and governments there, together with increasing geographic diversification to South America and Asia, which we view important for the continuity of profit stability.

In our view, Barry Callebaut's focus on innovative and environmental-friendly chocolate products, as well as the expansion of the gourmet division, are key pillars for profitable growth in the future. The company's core strategy and objective will remain in place with Barry Callebaut continuing to drive growth thanks to its mix proposition and focus on value creation and development of the gourmet division.

One key aspect to allow for this value-added growth is the company's innovation capabilities. The group has a track record of product innovation to match changing consumer preferences. Some of these products have included lower sugar content, plant-based and vegan, new products for fillings and inclusion, and sustainably sourced products. Barry Callebaut will likely increase its pricing power through these innovations. We view a big opportunity for Barry Callebaut especially in bakeries and restaurants where its innovative products complement and add value to different products in the confection, bakery, and ice-cream making space.

Consumers are becoming increasingly aware of sustainably sourced products and credibility in sustainability matters to most agribusiness peers. We see Barry Callebaut as pioneering meeting these needs and with an opportunity for the group to increase its value and pricing power. This as food and beverage manufacturers continue to look for new ways to use sustainably sourced ingredients in their products with more natural and sustainably sourced ingredients. Since its Forever Chocolate strategy was announced in 2016, the group has progressed toward reducing child labor, increasing farmers' living income, and helping reforestation in its main sourcing regions like West Africa. About 49.4% of Barry Callebaut's products contain 100% sustainable cocoa or chocolate as of 2022 (versus 42.6% last year). The group is also advancing on a full mapping of its cocoa farmers, which would strongly support the full transparency of sourcing and its competitive edge versus peers.

Overall, the company's prudent treasury and financial policy continue to be supportive of the current rating level. Barry Callebaut's financial position is mainly supported by our forecast of a positive stable free cash flow of Swiss franc (CHF)200 million-CHF250 million on average for the next two years, and stable adjusted debt leverage of around 2.0x-2.5x. The debt maturity profile appears well staggered with $400 million of senior notes due in June 2023 and €450 million of senior notes due in May 2024. We also view as supportive the company's stable dividend policy and its moderate and prudent acquisition strategy.

The FOCF mainly comes from our expectation of stable and growing EBITDA as the company deploys its growth strategy with constant capital outflow (3.5%-4.0% of revenue) offset by higher working capital outflows of CHF100 million-CHF150 million in 2023-2025. We expect working capital growth to moderate in the next two years on the back of slower volumes in mature markets. Large intrayear working capital swings are inherent to the cocoa processing business.

We expect Barry Callebaut to continue pursuing bolt-on acquisitions to increase its manufacturing and sales presence in growing regions or markets. However, most of the investments are likely to be more in the form of new production capacities as Barry Callebaut wins more outsourcing contracts from food producers and expands its gourmet and specialty segment, which is core to its medium-term growth plan. Recently as part of its ''smart growth'' strategy, Barry Callebaut indicated it will expand further in Canada (Ontario).

We anticipate the group will continue its stable dividend policy (40% of payout ratio) with no planned use of share repurchases or extraordinary dividends. This is also on the basis that the Jacobs family remains by far the largest single shareholder of the group.

Outlook

The stable outlook reflects our view that our ratings on Barry Callebaut will continue to be supported by its solid operating performance with stable profitability metrics. Barry Callebaut's established leading market positions, positive volume growth prospects, and the ability to quickly pass on price increases to offset raw material cost inflation should notably continue to retain profit stability.

Under the current rating we project Barry Callebaut will maintain S&P Global Ratings-adjusted debt to EBITDA of 2.0x-2.5x and funds from operations (FFO) to debt above 30% over the next two years. We also project the group will retain a comfortable FOCF cushion of around CHF300 million annually.

Downside scenario

We could take a negative rating action if over the next two years we see adjusted debt to EBITDA rising sustainably above 3.0x.

This could stem from a deviation from our understanding of the company's financial policy, such that the group pursues a large debt-financed acquisition or materially increases its shareholder remuneration.

We would also view negatively a weaker-than-expected operating performance possibly driven by more intense competition in key markets, unforeseen supply chain disruptions, or slower-than-expected expansion of the higher-margin gourmet division.

Upside scenario

We would also consider raising the rating if adjusted debt to EBITDA sustainably decreases to below 2.0x and FFO to debt rises to 45%-60%, supported by a larger FOCF base. This is contingent on the company adopting a more conservative financial policy to maintain the above credit metrics.

We could also consider raising the rating if Barry Callebaut profitably expands its business (and reduces commodity concentration) beyond cocoa processing and chocolate production.

Our Base-Case Scenario

Assumptions

- Revenue of CHF8.3 billion-CHF8.5 billion in 2023 and about CHF8.7 billion-CHF 8.9 billion in 2024. We assume slower volume growth in 2023 versus 2022, given the one-off impact of the Wieze facility and slower order demand from customers offset by price increases from pass-through contract mechanisms and higher price power in the gourmet and specialty division. As the company grows its gourmet section and value-added proposition, we expect growth to be more important in 2024 and thereafter with an increase in volumes as manufacturing outsourcing grows.

- S&P Global Ratings-adjusted EBITDA margin of 10.5%-11.0% EBITDA for 2023 (from 10.0% in 2022) and about 11.0%-11.5% in 2024. We assume ongoing pressure from input cost inflation outside of raw materials (labor, supply-chain, energy) although less important than last year, and gradually decreasing. We see the group as well positioned with a large product range to maintain high capacity utilization and cost controls if growth in the high-margin gourmet division slows over the coming months.
- FOCF of about CHF200 million-CHF250 million this year and CHF270 million-CHF320 million next year, with negative working capital movements year on year, and capital expenditure (capex) of about 4.0% of revenue.
- Adjusted net debt of about CHF1.9 billion-CHF2.0 billion in 2023 and 2024. For 2023, we notably assume about CHF1.3 billion of reported net debt, CHF390 million of trade receivable securitizations, CHF290 million of lease liabilities, and CHF51 million of net pension deficit. We assume about CHF150 million-CHF170 million of annual cash dividends and about CHF100 million of acquisitions annually. We estimate restricted cash of about CHF90 million for the group. In line with our criteria, we do not net from debt readily marketable inventories like cocoa beans because they are held for processing.

Key metrics

Barry Callebaut AG--Key Metrics*

Mil. CHF	2021a	2022a	2023e	2024f	2025f
Revenue	7,208	8,092	8,200-8,600	8,600-9,000	9,000-9,400
EBITDA margin (%)	11.3	10	10.5-11	10.7-11.2	11.2-11.7
Free operating cash flow (FOCF)	307	234	150-250	250-350	200
Debt to EBITDA (x)	2.3	2.3	2.0-2.5	2.0-2.5	2.0-2.5
FFO to debt (%)	35.5	34	30-35	35-40	35-40
FOCF to debt (%)	16.8	12.8	9-12	13-16	8-11

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

Headquartered in Switzerland, Barry Callebaut is the world's largest manufacturer of industrial chocolate, with about a 40% market share in volume terms, and the largest processor of cocoa beans with about 20% of market share. Its large production capacities, with full vertical integration from origination to manufacturing, and well-spread production footprint enable the group to achieve economies of scale and be close to end markets.

In fiscal 2022, the group generated revenue of CHF8.1 billion (2.3 billion of sales volume) and adjusted EBITDA of CHF806 million.

Barry Callebaut operates in three main segments:

- Food manufacturers: CHF4.7 billion of revenue (58% of total sales) generated from the sale of chocolate products to food producers. This segment grew about 11% versus last year.
- Global cocoa: CHF2.0 billion of revenue (25% of total sales), generated from the sale of cocoa products to food producers. It also generates CHF2.5 billion of revenue from internal transactions with other divisions for procuring key ingredients for chocolate production. This segment grew about 9.4% vs. last year.
- Gourmet and specialties: CHF1.4 billion of revenue (17%) generated from the sale of chocolate products to artisans, chocolatiers, food chains, and distributors. This segment grew about 24% vs. last year.

Barry Callebaut operates mostly in Europe, the Middle East, and Africa (41% of EBIT), the Americas (34%), and Asia-Pacific (9%), while its cocoa processing activities, global cocoa, account for 16% of revenue. The group operates 66 factories selling products in over 144 countries.

Barry Callebaut is listed on the Zurich Stock Exchange, with about 64.9% of its shares in free float. Most of the shares are held by institutional investors but the largest shareholder by far remains family holding company Jacobs Holding, with 30.1% of the share capital and voting rights. Renata Jacobs of the Jacobs family also owns 5% separately.

Debt maturities

As of August 31, 2022:

- 2023: CHF512 million (out of which CHF388 million bonds)
- 2024: CHF439 million (out of which CHF437 million bonds)
- 2025: CHF140 million
- 2026: CHF186 million
- 2027 and after: CHF335 million
- 2028: CHF546 million

Liquidity

We assess Barry Callebaut's liquidity as adequate under our criteria. We forecast that liquidity sources will exceed uses by 1.2x over the next 12 months. Even if EBITDA declined by 30%, we believe net sources would remain positive. We also value the strong banking relationships, diverse debt sources, and significant headroom under financial covenants.

Principal liquidity sources

- Unrestricted cash and equivalents of CHF 630 million as of the end of February 2023.
- Long-term undrawn committed CHF878 million revolving credit facility (RCF).
- Forecast FFO (before working capital movements) of around CHF687 million for the next 12 months.

Principal liquidity uses

- Around CHF663 million of debt due within one year.
- Estimated maximum working capital outflows about CHF250 million-CHF350 million.
- Estimated capex spending of about CHF300 million for the next 12 months.
- Estimated cash dividends of about CHF160 million for the next 12 months

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

ESG factors are an overall neutral consideration in our credit rating analysis of Barry Callebaut. It is one of the most advanced agribusiness companies globally in terms of level of disclosure and proactively addressing environment risks. Notably, since 2016 it has been implementing a comprehensive strategy to improve the sustainable sourcing of cocoa (as well as other raw materials) and preserve biodiversity.

We believe the observed progress of the implementation of this program should help limit loss of business volumes for Barry Callebaut when its main customers and end consumers become increasingly sensitive to these issues in their purchasing decisions. Barry Callebaut's initiatives include the digital mapping--and thus improved traceability--of all the cocoa farms in its main origin regions of West Africa. In terms of social risks, the company is running a comprehensive program to reduce child labor in farming communities in Africa. Barry Callebaut also supports the professionalization of the cocoa farmers with the aim to improve their productivity and increase income.

Issue Ratings--Subordination Risk Analysis

Capital structure

Barry Callebaut issues most of its senior debt through Barry Callebaut Services N.V., its group financing vehicle. Most of the long-term debt instruments are senior unsecured and guaranteed by Barry Callebaut AG (BBB/Stable/--). We currently rate the 2023 and 2024 senior notes as well as the 2026 RCF.

Analytical conclusions

We rate the long-term senior unsecured debt 'BBB', in line with our issuer credit rating on Barry Callebaut. This is because we assess limited structural subordination in the capital structure as total secured debt and debt held at the operating companies is below our 50% threshold

Rating Component Scores

Foreign currency issuer credit rating	**BBB/Stable/--**
Local currency issuer credit rating	**BBB/Stable/--**
Business risk	**Satisfactory**
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of May 03, 2023)*

Barry Callebaut AG	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
Issuer Credit Ratings History	
08-Sep-2022	BBB/Stable/--
14-Nov-2018	BBB-/Stable/--

Ratings Detail (as of May 03, 2023)*

22-Dec-2017	BB+/Positive/--
Related Entities	
Barry Callebaut Services N.V.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.