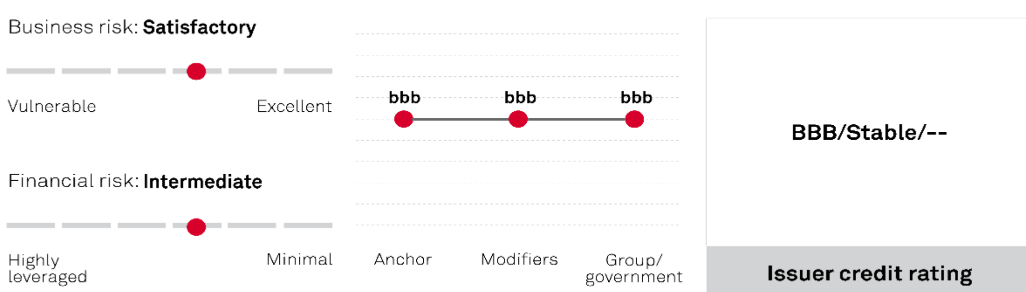
Barry Callebaut AG

May 8, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Global leader in cocoa processing and chocolate manufacturing with strong innovation and sustainability capabilities.	Bad weather conditions have led to a shortfall in cocoa bean supply and a rise in cocoa prices, significantly affecting free operating cash flow (FOCF) in 2024.
Ability to pass on raw material prices given 70% of volumes sold are under a cost-plus pricing model.	Low volume growth prospects in Barry Callebaut's main mature markets, Europe and North America, in 2024.
Barry Callebaut's BC Next Level strategic investment program will simplify business and reduce produce complexity while increasing cost savings.	Cocoa beans sourced from high-risk countries but long track record of sourcing ability and diversification efforts.
Track record of stable S&P Global Ratings-adjusted debt leverage of 2x-3x.	Cocoa processing is relatively low margin and subject to volatile commodity prices.
Consistent dividend policy and focus on small acquisitions.	

We expect Barry Callebaut's cash flow and credit metrics will deteriorate more than our previous forecast in the fiscal year ended Aug. 31, 2024 (fiscal 2024) due to the unprecedented rise in cocoa bean price. We now forecast the company will generate large negative FOCF of Swiss franc (CHF)550 million-CHF650 million (about $607 million-$718 million) in 2024. We also expect credit metrics will deteriorate compared with our previous base-case such that adjusted debt leverage is at 3.0x-3.5x while funds from operations (FFO) to debt is at 20%-25% in fiscal 2024.

Bad weather conditions in Cote d'Ivoire and Ghana (together 60% of the world cocoa production) have led to a sharp shortfall in the supply of cocoa beans globally and thus a steep rise in cocoa market price (over $10,000 per ton or more than 250% in the 12 months ended April 26, 2024). We understand that Barry Callebaut contracted sufficient volumes for its business needs for the next six-to-nine months. However, the rise in cocoa bean price means the company's working capital needs are increasing, and we assume a CHF1 billion outflow for fiscal 2024.

To address its increasing working capital needs, the company has built a liquidity position cushion by issuing a CHF600 million bond (which will partly refinance €450 million senior notes due in May 2024), increasing its committed revolving credit facility (undrawn as of April 30, 2024) to €1.312.5 billion (from €900 million), and taking a new term loan of €262.5 million, which adds to its existing bank lines and commercial paper program. More recently, Barry Callebaut has tapped the Swiss Bond Market for a second time this year raising CHF730 million. This means the company has raised a total of CHF1.3 billion in the Swiss Bond Markets with long-term maturity dates. We understand the company will continue to accelerate cash conversion through the use of its securitization and reverse factoring programs.

Assuming cocoa prices reduce in fiscal 2025 from current levels, we expect Barry Callebaut's profitability, cash flow, and credit metrics will improve in fiscal 2025. We expect sales will increase by at least 15% in fiscal 2024 as the company passes on the higher cocoa bean price, which will more than offset volume stagnation. We see sales stabilizing in 2025 (the May 2025 cocoa futures is currently about $8,000, a 25% decrease versus the current price of $10,800). We believe sales volumes will remain flat throughout 2024 (we predict an increase of 0%-1%), and will pick up slightly in 2025 due to increased demand from emerging markets and private label manufacturers. We also expect 3-4% revenue growth in 2025 from the company's BC Next Level initiatives, which it will start delivering on

We believe Barry Callebaut, as the industry leader in cocoa, retains very good sourcing capabilities (including in Latin America) and long-lasting commercial relationships with a very broad portfolio of food and beverage manufacturers. This enables the company to navigate through the current very volatile cocoa pricing environment more easily than smaller players with lower access to capital. We view positively Barry Callebaut 's cost-plus pricing model, which enables the company to pass on raw material costs to its customers at about 70% of the volumes sold (which account for 80% of variable costs).However, we project about a 200 basis points (bps) decrease in EBITDA margin in fiscal 2024, given a time lag to adjust prices, and considering some volumes are sold under a price list, which takes more time to negotiate. We also factor the BC Next Level cash restructuring costs of about CHF130 million in fiscal 2024. With its pass-through capabilities and timing, and given our assumption that cocoa prices will decrease in 2025, we predict Barry Callebaut's profitability will rebound by about 100bps-150bps in fiscal 2025.

We expect the reduction in FOCF in fiscal 2024 to be significant given the long cycle from bean contracting with farmers to bean delivery (about 12 months from January to January) and to customer sales (about four to six months). Once the company enters into a contract it shorts future derivatives to hedge long-term exposure, which helps protect its profit and loss statement, but has an important effect on cash flow generation.

We believe the execution of the BC Next Level strategy, and the company's control of discretionary spending will improve profitability and credit metrics. While we anticipate Barry Callebaut will focus on its immediate business needs and the extreme volatility of its main raw material cocoa beans, we believe it will also continue to make progress on its BC Next Level strategy. The company has already reorganized its geographical regions and plans to simplify its business by reducing product complexity and number of references, increase cost savings in production and overheads, and reinvest these in supply-chain efficiencies. We also note efforts to accelerate the diversification of cocoa sourcing outside West Africa, notably in Ecuador and Brazil. Meanwhile we believe the company will continue to pursue a stable dividend policy and limit acquisition spending over our forecast horizon.

Outlook

The stable outlook reflects our view that our ratings on Barry Callebaut will continue to be supported by its solid operating performance and ability to stabilize profitability over the next two years. We believe Barry Callebaut's established leading market positions, global scale and distribution, and the ability to quickly pass on price increases to offset raw material cost inflation will continue to retain profit stability.

Under the current rating we project Barry Callebaut will maintain adjusted debt to EBITDA of 2.5x-3.0x on average over the next two years, with FFO to debt at 25%-30% during the same period. We also project the company will stabilize FOCF in fiscal 2025 after an expected large outflow in fiscal 2024.

Downside scenario

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

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

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

Upside scenario

We would 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

Key metrics

Barry Callebaut--Key Metrics*

Mil. CHF	2022a	2023a	2024e	2025f	2026f
Revenue	8,092	8,471	9,500-10,000	10,000-10,500	10,000-10,500
EBITDA margin (%)	10.0	10.9	9.0-9.5	10.0-10.5	11.5-12.0
Free operating cash flow (FOCF)	234	76	(500)-(600)	50-100	300-400
Debt to EBITDA (x)	2.3	2.1	3.0-3.5	2.5-3.0	2.0-2.5
FFO to debt (%)	34.0	36.5	20-25	25-30	30-35
FOCF to debt (%)	12.8	4.0	(15)-(20)	5-10	15-20
EBITDA interest coverage (x)	7.6	7.6	5-7	7-9	7-9

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

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 company to achieve economies of scale and be close to end markets.

In fiscal 2023, the company generated revenue of CHF8.47 billion and adjusted EBITDA of CHF 921 million.

Barry Callebaut operates in three main segments:

- Food manufacturers: CHF5.1 billion of revenue (60% of total sales) generated from the sale of chocolate products to food producers. This segment grew by about 8% in fiscal 2023 compared to fiscal 2022.
- Global cocoa: CHF2.0 billion of revenue (24% of total sales), generated from the sale of cocoa products to food producers. This segment grew by about 0.1% in fiscal 2023 compared to fiscal 2022.
- Gourmet and specialties: CHF1.4 billion of revenue (16%) generated from the sale of chocolate products to artisans, chocolatiers, food chains, and distributors. This segment grew by about 0.5% in fiscal 2023 compared to fiscal 2022.

Barry Callebaut operates mostly in Europe, the Middle East, and Africa (41% of EBIT), the Americas (34%), and Asia-Pacific (9%), with the rest of the world representing the remainder. 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.

Environmental, Social, And Governance

Environmental, social and governance 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 environmental 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 progress of the sustainable sourcing and biodiversity 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.

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	Neutral (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, Jan. 7, 2024
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of May 08, 2024)*

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/--
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.