S&P Global
Ratings

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Summary:
Barry Callebaut AG

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Table Of Contents

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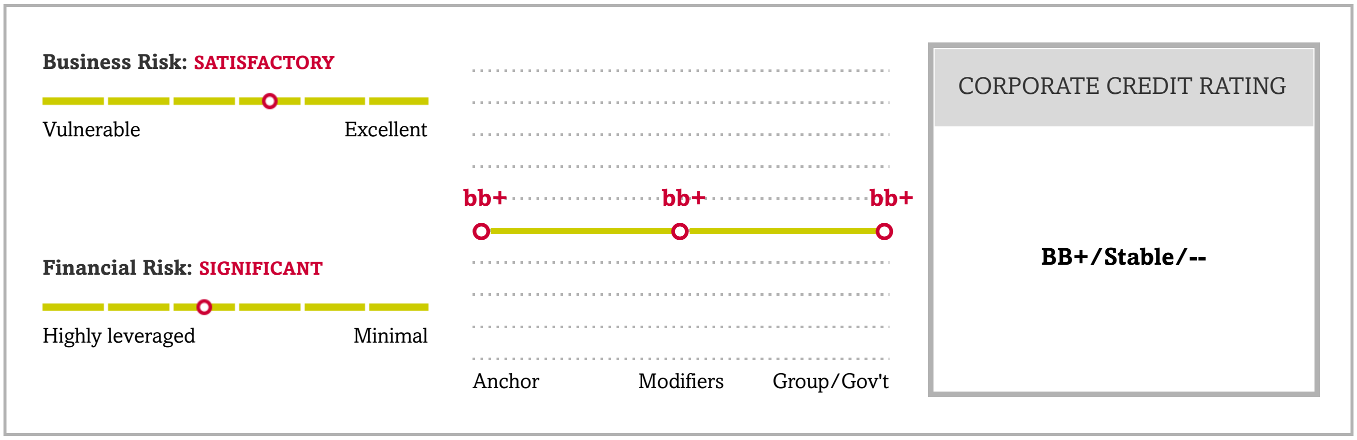

Rationale

Business Risk	Financial Risk
• Leading global chocolate and cocoa products supplier for the food market. • Strong competitive position, benefitting from general outsourcing trends in the food industry. • Good geographic diversification by revenues. • Relatively stable profitability slightly under pressure by the global cocoa division.	• Weighted-average S&P Global Ratings-adjusted debt to EBITDA slightly above 3.0x over 2017-2018. • Exposure to commodities prices volatility, with potential significant swings in working capital requirements • Capital intensive business model.

Outlook

The stable outlook reflects our view that Barry Callebaut's key financial ratio--debt to EBITDA--will likely be sustainable below 4.0x over the next 12 months. Additionally we believe that the company will continue to be able to grow at a rate above the average of the industry and at the same time will gradually improve its profitability level thanks to the recent phase-out of some less profitable activities within the global cocoa division and better product mix.

Downside scenario

We could take a negative rating action if Barry Callebaut's operating environment deteriorated significantly, due, for example, to negative volume growth and strong competition on prices; or if the combined effect of negative working capital and large unexpected investments or new acquisitions lead to negative cash flow generation that ends up with the leverage ratio exceeding 4.0x.

Upside scenario

We could consider a positive rating action if we were to see a solid track record of enhanced cash conversion thanks to structurally lower working capital needs and higher profitability level and if the debt-to-EBITDA ratio remains steady at around 3.0x or lower.

Our Base-Case Scenario

Assumptions

- Forecast mid-single-digit increase in annual revenue growth for 2017 thanks to the good momentum in the gourmet and specialties division (about 15% of total sales 2016) and improved product mix.
- Reported EBITDA margin of about 8.3%-8.6% over the next two years--with a gradual improvement compared with the previous year--mainly thanks to the recent phase-out of some less profitable activities in the global cocoa division.
- Capital expenditure (capex) of about €200 million over the next 12 months.
- Dividend of Swiss franc (CHF) 85 million to be paid in March 2017.
- No material acquisitions transactions.

Key Metrics

	2016a	2017e	2018e
Revenues (mil. CHF)	6,677	7,026	7,330
Reported EBITDA margin (%)	8.1	8.3	8.6
Adjusted Debt on EBITDA (x)	3.6	3.3	3.1

a--Actual. e--Estimate

Business Risk

Barry Callebaut's business risk profile reflects the leadership position that the company has in the global chocolate and cocoa market. The group achieved CHF6.7 billion revenues in fiscal year 2016 and it has a proven track record of being able to outperform the industry in terms of volume growth and it is relatively resilient to volatility of raw materials (such as cocoa, sugar, and powdered milk) due to cost plus pricing mechanism.

The business profile of the company is supported by long standing relationships with multinational and national branded food manufacturers, such as Nestlè, Mondelez, Unilver, and Hershey. Additionally, for the full year 2015/2016 (closing on Aug. 31, 2016), the company reported positive growth in all geographical markets, both emerging and mature.

On the other hand, we highlight that the global cocoa segment continues to suffer in terms of volume growth and profitability. This division--accounting for about 30% of total annual revenues--brings down the company's overall profitability--in fiscal year 2016 the adjusted EBITDA margin decreased to 8.5% from 9.0%. For this reason, the company is taking actions to restore profitability levels under the cocoa leadership project, and we expect to see the positive effect of these actions on the operating margin starting from fiscal year 2017.

Finally, we highlight how the chocolate consumer consumption as a whole--after a historical trend of continued positive growth--is showing some cooling trends with a flat outlook over the short term.

Financial Risk

Barry Callebaut's financial risk profile primarily reflects our expectation that the company will maintain a debt-to-EBITDA ratio in the 3.0x-4.0x range. We notice that in fiscal year 2016 this ratio has improved to 3.6x from 4.0x mainly thanks to a very positive contribution from working capital change that we do not expect to be repeated in the same magnitude in 2017. Still, we believe that the structural actions taken to improve the working capital management and the gradual improvement in profitability going forward will support further enhancement in the leverage ratio. We also account for the company's positive expected discretionary free cash flow generation (after working capital change, capex, and dividend payments). The group recently reported positive cash flow generation for 2015/2016, and in our base case scenario we assume that this will be the case also in 2016-17 mainly thanks to sound improvements in working capital management and more discipline in capex.

We expect that the company maintains a steady dividend policy, in line with the past years and we do not include in our base case scenario any significant acquisition that could have a relevant negative impact on credit metrics.

Liquidity

We assess Barry Callebaut's liquidity as adequate, indicating our view that the company's sources of cash are sufficient to cover its uses by at least 1.2x for the 12 months. We estimate that the company will maintain good headroom under its maintenance covenants, which will be tested on a semi-annual basis.

Principal Liquidity Sources	Principal Liquidity Uses
• About CHF460 million of cash and cash equivalents on the balance sheet as of Sept. 1, 2016; • Undrawn revolving credit facility (RCF) of about CHF645 million maturing in 2019; and • Annual cash funds from operations generation of about CHF400 million over the next 12 months.	• Debt maturities of about CHF756 million, including commercial papers, as of Sept. 1, 2016; • Maintenance capex of about €100 million per year; • Limited intrayear working capital requirements; • Expected absorption of working capital change of about CHF50 million–CHF70 million; and • Dividend payment of CHF85 million to be paid in March 2017.

Ratings Score Snapshot

Corporate Credit Rating

BB+/Stable/--

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bb+

Modifiers

- **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)

Recovery Analysis

Key Analytical Factors

- The senior unsecured debt (comprising €600 million revolving credit facility, €350 million 6% notes due 2017, €250 million 5.625% notes due 2021, $400 million 5.5% notes due 2023, and the €450 million 2.375% bonds) have an issue rating of 'BB+' and recovery rating of '4'. The recovery rating is supported by a good guarantor package (from the parent as well as subsidiary companies) but constrained by the unsecured nature of the debt. Our recovery expectations are in the lower half of 30%-50% range.

- Our hypothetical default scenario envisages increased competition and a dip in the quality of cocoa produced owing to the politically unstable environment in Africa.
- We value Barry Callebaut as a going concern, given its prominent market position and long term contracts with leading customers of the chocolate industry.

Simulated Default Assumptions

- Year of default: 2021
- EBITDA at emergence: CHF267 million
- Implied enterprise value multiple: 5.5x
- Jurisdiction: Switzerland

Simplified Waterfall

- Gross enterprise value at default: CHF1,466 million
- Administrative costs: CHF73 million
- Net value available to creditors: CHF1,393 million
- Priority claims: CHF371 million
- Estimated senior unsecured debt claims: CHF2,662 million*^
- Value available for first-lien senior secured claims: CHF1,022 million
- Recovery expectations: 30%-50% (lower half of the range)

*All debt amounts include six months' prepetition interest.

^Includes a €600 million RCF drawn at 85%.

Related Criteria And Research

Related Criteria

- Recovery Rating Criteria For Speculative-Grade Corporate Issuers - December 07, 2016
- General: Guarantee Criteria - October 21, 2016
- General: 2008 Corporate Criteria: Rating Each Issue - April 15, 2008
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating - October 01, 2010
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Industrials: Key Credit Factors For The Agribusiness And Commodity Foods Industry - January 29, 2015
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers - May 07, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- Corporates - General: Corporate Methodology - November 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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