Credit Opinion: Barry Callebaut AG

Barry Callebaut AG

Switzerland

Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating	Ba1

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Key Indicators

[1]
Barry Callebaut AG

	[2]**2006**	[2]**2005**	[2]**2004**
EBITA Margin [3]	**6.2%**	**6.1%**	**5.5%**
Debt/EBITDA	**4.0x**	**4.0x**	**4.0x**
RCF / Net Debt [4][5][6]	**14.8%**	**18.0%**	**16.2%**
FCF / Debt [4][5][6]	**2.4%**	**10.6%**	**11.1%**
EBIT/interest expense	**3.3x**	**3.0x**	**2.0x**
FFO / Net Debt [4][5][6]	**14.9%**	**18.0%**	**19.1%**

[1] Please see Moody's " Global Natural Product Processors - Protein and Agriculture" Rating Methodology, March, 2006. [2] Financial Year ended August 31 [3] Adjusted for Operating Exceptional Costs [4] Adjusted for 6x Rental Costs [5] Adjusted for Pension Liabilities [6] Adjusted for off-B/S Receivables Securitisation Programme

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

Opinion

Company Profile

Barry Callebaut AG (`Barry Callebaut', or `the company') is a fully integrated company from the sourcing of raw materials through to the production of semi-finished and finished chocolate products. In the twelve months to February 2007, the company reported revenues and EBITDA (before exceptionals) of CHF 4.2bn and CHF 421mn, respectively.

Recent Developments

On 4 April 2007, under the implementation of the loss-given-default (LGD) methodology across Europe, Moody's assigned a probability of default rating (PDR) of Ba2 to the company. This is based on the company's Ba1 corporate family rating and a 65% expected recovery rate which is generally applied to companies with bank debt only. Following its bond redemption in March 2007, Barry Callebaut's borrowings consist entirely of bank debt. The Ba1 corporate family rating with a stable outlook remained unchanged.

Credit Strengths

- World leader in industrial chocolates;

- Scale of global purchasing and market leadership;

- Increasing geographic diversification;

- Large and diversified customer base;

- Conservative commodity hedging policies.

Credit Challenges

- Commodity price fluctuations and working capital volatility;

- Cocoa sourcing and instability of producing countries;

- Market maturity. Global consumption of chocolate is estimated to have grown by a mere 1-2% per annum in recent years, such that the company is targeting markets with higher growth prospects, in particular Russia and China.

Rating Rationale

In November 2006 Moody's upgraded the corporate family rating of Barry Callebaut to Ba1 with a stable outlook. The upgrade reflected the company's solid track record of stable operating margins and credit metrics amidst modest top line growth in the company's core markets. The ratings remain constrained, however, by the still fairly high leverage of the company, with Total Debt to EBITDA at 4x in fiscal year 2006. In addition, the company's operating cash flow is likely to remain volatile as a result of swings in working capital requirements, as was the case in fiscal year 2006.

Liquidity

Liquidity is satisfactory due to the company's availability of committed facilities sufficient to cover general fluctuations in working capital. As of February 2007, the company held CHF 62 million of cash and equivalents on hand, and retained access to CHF 664 mn of an undrawn and committed portion of its senior facilities.

Drivers of Rating Change

The application of the Natural Product Processors methodology to Barry Callebaut for fiscal years 2004-2006 results in a qualitative profile that is largely in the Baa range, but a weaker financial profile that falls largely in the Ba/B range, with an overall rating of Ba1. Based on the methodology, the key factors currently influencing the Barry Callebaut rating are:

Factor 1: Scale & Diversification. The company ranks quite highly on the basis of its size and geographical diversification of its operations. The company has over 5,000 customers, including large multinationals and small chocolate producers and retailers. The company ranks lower in terms of sourcing of raw materials, namely cocoa, due its heavy reliance on several politically unstable countries, in spite of recent efforts to diversify.

Factor 2: Franchise strength and growth potential. The company falls in the Baa category. The company reported a 4.1% increase in sales in the first half of FY 2007, and 4.9% in 2006, or 2.6% on a comparable basis. Moody's views positively the company's current investments in high growth markets, notably in Russia and China. The company also announced in February 2007 its intention to acquire from Nestle two chocolate factories in France and Italy to service the South European markets.

Factor 3: Earnings volatility: The company scores highest in this category, given the fairly steady growth in its reported EBITA, although this has also benefited from acquisitions.

Factor 4: Assessment of Cost Efficiency & Profitability. Barry Callebaut ranks in the Ba range reflecting its average 5.9% EBITA margin over three years. In the twelve months to February 2007 the company reported EBITDA of CHF 421mn on revenues of CHF 4.2bn. Stronger margins in Europe were offset by weakness in the Americas, due to weakness in the consumer products division where the company is reviewing its strategic options for potential divestments.

Factor 6 - Financial Strategy & Metrics. Based on fiscal year 2004-2006, Barry Callebaut's credit metrics fall mainly in the Ba category, with the main exception of cash flow based metrics, namely the FFO/Net debt and FCF/Debt ratios which are more in line with B rated peers. In particular, the three year average FCF/Debt ratio positions the company in the lower end of the Ba category. Moreover, the 2.4% FCF/Debt ratio reported in fiscal year 2006 is more in line with the single B category. The company's limited free cash flow generation has resulted in Total

Debt/EBITDA remaining at around 4.0x in the last three years.

Rating Outlook

The stable outlook reflects Moody's view that the company's market position and innovative abilities will enable it to retain a steady growth in profitability, while swings in working capital volatility are likely to remain an inherent feature of the credit profile.

What Could Change the Rating - Up

An upward revision in the outlook could result from a sustained strengthening in operating profits and cash flows from more rapid market growth, potentially from investments in new markets.

What Could Change the Rating - Down

Downward pressure on the rating or outlook could occur if credit metrics weakened as a result of raw material supply difficulties of if the investments in new markets fail to achieve the desired benefits. The rating is also likely to be revisited if the company embarks upon a material increase in M&A activity.

Rating Factors

Barry Callebaut AG

Natural Product Processors	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale & Diversification							
a) Total Sales					$3.4 bn		
b) Geographic Diversification - sales			X				
c) Geographic Diversification - raw materials						X	
d) Product Segment Diversification					X		
Factor 2: Franchise Strength and Growth Potential							
a) Market Share				X			
b) Organic Revenue Growth				X			
c) Qualitative Assessment of Portfolio				X			
Factor 3: Earnings Volatility							
a) Largest one year drop in EBITA in past 5 years	X						
Factor 4: Cost Efficiency & Profitability							
a) EBITA Margin					5.9%		
b) Return on Average Assets					8.1%		
Factor 5: Liquidity Under Stress							
Liquidity Under Stress (not disclosed)							
Factor 6: Financial Strategy and Metrics							
Creditor-friendliness of policies				X			
EBIT / Interest Expense					2.8x		
EBIT / Interest Expense Range						2.0x	
Debt / EBITDA (3-Yr Average)					4.0x		
Debt / EBITDA Range (3-Yr Worst)					4.0x		
FFO / Net Debt Range (3-Yr Average)						17.4%	
FFO / Net Debt Range (3-Yr Worst)						15.0%	
RCF / Net Debt (3-Yr Average)					16.3%		
RCF / Net Debt Range (3-Yr Worst)					14.8%		
FCF / Debt (3-Yr Average)					8.0%		
FCF / Debt Range (3-Yr Worst)						2.4%	
Rating:							
a) Indicated Rating from Methodology					Ba1		

b) Actual Rating Assigned					Ba1		

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