

Credit Opinion: Barry Callebaut AG

Barry Callebaut AG

Switzerland

Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating	Ba1
Barry Callebaut Services N.V.	
Outlook	Stable
Senior Unsecured -Dom Curr	(P)Ba1/LGD4

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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 operating in 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 of CHF4.2 billion and EBITDA (before exceptionals) of CHF421 million.

Recent Developments

On 28 June 2007, Moody's assigned a (P)Ba1 rating (LGD4, 61%) to the company's proposed EUR 350 million senior unsecured notes issued by Barry Callebaut Services NV (Belgium). Concurrently, Moody's affirmed Barry Callebaut's Ba1 Corporate Family Rating ("CFR") and stable outlook on all ratings, and changed the company's Probability of Default Rating ("PDR") to Ba1 from Ba2, based on the 50% expected recovery rate that is generally applied to structures with both bank and bond debt. The rating action followed the company's proposed issuance of EUR 350 million Senior Notes due 2017.

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

The affirmation of the Ba1 CFR of Barry Callebaut reflects the enhanced liquidity available to the company as well as the extension of the company's debt profile and share of fixed debt in its capital structure. Moody's believes the enhanced liquidity should provide the company with greater flexibility to manage increased raw material prices and fulfil its commitments under two recent partnership agreements with Hershey and Nestle, while providing a back-up facility for its ongoing Asset-Backed security ("ABS") and Commercial Paper ("CP") programmes.

Moody's expects that the additional liquidity will be used in part to fund the company's expansion into new countries but also to provide funding to cover the potentially higher volatility in working capital cycles on account of increased raw material prices, including cocoa, hazelnuts and milk powder.

The (P)Ba1 rating assigned to the Senior Unsecured Notes, at the same level as the CFR, reflects the fact that they will rank pari passu with all other unsecured debt, including the new EUR 850 million facility and Moody's understanding that they will be subordinated only to approximately CHF100 million of secured debt and debt at the non-guarantor level.

Structural Considerations

After the transaction, Barry Callebaut's debt structure will be mainly represented by the EUR 850 million revolving credit facility, the new EUR 350 million bonds and various short-term facilities, the majority of which are uncommitted and unsecured.

The EUR 850 million revolving credit facility is drawn at Barry Callebaut AG and Barry Callebaut Services NV (Belgium) and at the date of the transaction approximately EUR 300 million remained outstanding. The company expects to use the proceeds of the bond offering to repay the outstanding amount. Before the renegotiation its key terms, the revolving facility comprised three tranches: the EUR 435 million tranche A, the EUR 250 million tranche B and the EUR 165 million tranche C. The company has obtained consent by the banks to combine the three tranches, extend the maturity to five years with two times 1 year prolongation, lower its interest payments and reduce restrictions in general undertakings and securities.

The 10-year fixed-rate EUR 350 million Notes are a senior unsecured obligation of Barry Callebaut Services NV (Belgium). The notes will benefit from downstream guarantees from Barry Callebaut AG, the parent company of the issuer, as well as guarantees from subsidiaries representing no less than 65% of Group assets, 75% of sales and 70% of EBITDA. Moody's cautions, however, that there might be limitations on the enforceability of guarantees under different jurisdictions.

The LGD4 (60%) assessment and the (P)Ba1 rating assigned to the Notes, at the same level as the CFR, reflects the fact that they will rank pari passu in right of payment with all other unsecured debt, including the new EUR 850 million revolving credit facility and that the only financial debt ranking senior to the notes will be the approximately CHF100 million of secured debt and debt at the non-guarantor level. Moody's notes that there is no limitation in the indenture to the amount of liabilities ranking senior to the notes that may be incurred by the company.

The Notes can be redeemed at the option of the issuer at any date and at an amount equal to the sum of their nominal value, the accrued interest and a "make whole" premium.

Liquidity

The company's liquidity requirements are significantly impacted by cocoa prices, which in turn can be impacted by both weather conditions and potential political events. The company's working capital requirements tend to peak in the fiscal first and third quarters, due to an increase in both inventories and receivables, and to ease at fiscal year-end.

Following the proposed EUR 350 million notes issuance and the expected repayment of the existing drawings under the EUR 850 million unsecured credit facilities, the full amount of the revolver will be available to the company. Moody's expects the majority of the revolving credit facility to remain undrawn over its life and to provide a backup facility to Barry Callebaut's ABS and CP programmes, which amounted to CHF354 million and CHF255 million, respectively, at the end of FY2006.

Moody's assessment of the risk of a liquidity shortfall is low, due to the company's availability of committed facilities sufficient to cover shortfalls in the ABS programme and the fluctuations in raw material prices.

At the end of February 2007, the company also reported CHF62 million of cash and equivalents while short-term debt decreased to CHF368.5 million from CHF386.6 million at the end of 2006

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 about 6,000 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 & Growth Potential. The company falls in the Baa category. It 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, particularly in Russia and China. The company also announced in recent months the signing of an agreement to increase its supply of chocolate to Cadbury Schweppes in Poland as well as to supply chocolate to Hershey in the Americas.

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 CHF421 million on revenues of CHF4.2 billion. Stronger margins in Europe were offset by weakness in the Americas, due to loss of market share in the consumer products division where the company is reviewing its strategic options for potential divestments, notably of Brach's.

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 at 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 expectation that, despite the increase in funding available to the company, future borrowings will be commensurate with the company's own growth and that its market position and its innovative abilities will enable it to maintain a steady growth in profitability.

What Could Change the Rating - Up

If the company were able to improve its Debt/EBITDA ratio to close to 3.5x on a sustainable basis versus 4x recorded at the end of FY2006, possibly benefiting from new partnership agreements, this could be positive for the ratings or the outlook.

What Could Change the Rating - Down

If the company's Debt/EBITDA ratio were to rise above 4.5x, possibly resulting from a deterioration in profitability

as a result of its inability to pass on rising raw material prices, the rating or outlook could be revised downward.

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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