Moody's Investors Service

Global Credit Research
Credit Opinion
11 SEP 2008

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	Ba1/LGD4

Contacts

Analyst	Phone
Stefano Del Zompo, CFA/London	44.20.7772.5454
Lynn Valkenaar/London	
Myriam Durand/Paris	33.1.53.30.10.20

Key Indicators

[1]
Barry Callebaut AG

	2007	2006	2005
EBITA Margin	7.5%	7.7%	6.0%
Debt / EBITDA	3.7x	3.7x	4.0x
RCF / Net Debt	19.4%	15.0%	18.0%
FCF / Debt	5.7%	2.2%	10.6%
EBIT / Interest Expense	3.3x	3.2x	3.0x
FFO / Net Debt	19.4%	15.0%	18.0%

[1] All ratios adjusted according to "Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations - Part II" Rating Methodology located at www.moodys.com

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

Opinion

Corporate 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 12 months to May 2008, the company reported revenues of CHF4.7 billion (about EUR 2.9 billion).

Rating Rationale

Moody's last rating action on the company was in June 2007, when it affirmed Barry Callebaut's Ba1 corporate family rating (CFR), reflecting 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.

The Ba1 rating on 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.

Drivers of Rating Change

The application of Moody's Global Natural Product Processors -- Protein and Agriculture methodology to Barry Callebaut, results in a business profile largely in the Baa range with a weaker financial profile that falls in the Ba/B range with an overall rating of Ba1. The company's metrics are mainly constrained by the high gearing necessary to finance its working capital needs. Based on the methodology, key factors influencing current ratings are:

Factor 1: Scale & Diversification. Barry Callebaut's ratings, on the one hand, positively reflect its large customer base, which is composed by about 6,000 customers and includes large multinationals and small chocolate producers and retailers. Barry Callebaut's ratings also reflect its good sales diversification and established presence in all major global markets, with increasing presence and attractive prospects in Russia and China - where it has built new capacity - and India. The assessment of the company's business profile remains, on the other hand, constrained by its still heavy reliance on several politically unstable countries for sourcing of raw materials, namely cocoa, in spite of recent efforts to diversify.

Factor 2: Franchise Strength & Growth Potential. The company falls in the Baa category, reflecting a 10% increase in sales volumes and 18.6% in revenues in the first nine months of 2008 compared to the same period in the previous year. Moody's continues to view positively the company's investments in high-growth markets, particularly in Russia, China and India, where the company recently opened its first Chocolate Academy to develop the local market, as well as its increased presence in the US. After the signing of the strategic agreements with Nestle, Cadbury and Hershey in 2007, the company announced in January 2008 the agreement with Morinaga to expand its presence in Japan, alongside the acquisition of additional production capacity in Philadelphia and Malaysia.

Factor 3: Earnings Volatility. The company benefits from resilient sales volumes and stable margins and 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 ca. 7% EBITA margin over three years. In the six months to February 2008, the company reported revenues of about CHF2.6 billion and EBIT of CHF200.4 million, mainly impacted by delayed price increases in the consumer product division, non-recurring start-up costs for the new factories in Russia and China, and the beginning of new outsourcing contract with initially lower margins. The disposal of the consumer business in the Americas led to an improvement in profitability in the region, partly offset by lower margins in Europe and declining operating profit in the rest of the world, mainly due to the weaker than expected performance of the African consumer business. Moody's expects full year results to show increased volumes and profitability in line with the company's guidance for 2008.

Factor 6: Financial Strategy & Metrics. Based on fiscal year 2005-2007, 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 continues to position the company at the lower end of the Ba category while the 5.7% FCF/Debt ratio reported in fiscal year 2007 - albeit improving from 2.2% a year earlier - remains more in line with the single B category. The volatility of the company's working capital, coupled with returns to shareholders and high discretionary capital investments, have resulted in limited debt reduction and Debt/EBITDA ratios at around 3.7x/4.0x in the past three years.

Structural Considerations

After the June 2007 refinancing, Barry Callebaut's debt structure is mainly represented by the EUR 850 million revolving credit facility, the EUR 350 million bond 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 end of May 2008 approximately EUR 620 million remained available.

The 10-year fixed-rate EUR 350 million Notes are a senior unsecured obligation of Barry Callebaut Services NV (Belgium). The notes 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 loss-given default (LGD) assessment of LGD4 (60%) and the 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 EUR 850 million revolving credit facility and that the only financial debt ranking senior to the notes is 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 the volatility of cocoa prices, which in turn can be impacted by both weather conditions and 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 tend to ease at fiscal year-end.

At the end of the first half of 2008, EUR 850 of the revolver remained 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 Asset-Backed security ("ABS") and Commercial Paper ("CP") programmes, which amounted to CHF367.9 million and CHF198.9 million, respectively, at the end of FY2007.

At the end of fiscal year 2007, the company also reported CHF60.8 million of cash and equivalents while short-term debt increased to CHF410.5 million from CHF368.5 million at the end of 2007.

Moody's assessment of the risk of a liquidity shortfall is low, as we believe 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 signed with Hershey and Nestlé, while providing a back-up facility for its ongoing ABS and CP programmes.

Current ratings assume that Barry Callebaut will maintain adequate liquidity to fund the company's growth strategy but also to cover potentially higher levels of volatility in working capital cycles.

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 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 3.7x recorded at the end of FY2007, this could be positive for the outlook.

What Could Change the Rating - Down

The company's ratings or outlook could face negative pressure if the company's Debt/EBITDA ratio were to rise above 4.5x.

Rating Factors

Barry Callebaut AG

Natural Product Processors	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale & Diversification							
a) Total Sales					~ $3.6 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				7.1%			

b) Return on Average Assets					8.8%		
Factor 5: Liquidity Under Stress							
Liquidity Under Stress (not disclosed)							
Factor 6: Financial Strategy and Metrics							
Creditor-friendliness of policies				X			
EBIT / Interest Expense (3-Yr Average)					3.2x		
EBIT / Interest Expense (3-Yr Worst)					3.0x		
Debt / EBITDA (3-Yr Average)					3.8x		
Debt / EBITDA Range (3-Yr Worst)					4.0x		
FFO / Net Debt Range (3-Yr Average)						17.5%	
FFO / Net Debt Range (3-Yr Worst)					15.0%		
RCF / Net Debt (3-Yr Average)					17.4%		
RCF / Net Debt Range (3-Yr Worst)				15.0%			
FCF / Debt (3-Yr Average)					6.1%		
FCF / Debt Range (3-Yr Worst)						2.2%	
Rating:							
a) Indicated Rating from Methodology					Ba1		
b) Actual Rating Assigned					Ba1		

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."