Moody's Investors Service

Credit Opinion: Barry Callebaut AG

Global Credit Research - 17 Feb 2010

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

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Key Indicators

[1]**Barry Callebaut AG**

	2009	2008	2007	2006	2005
EBITA Margin	**6.9%**	**6.9%**	**7.5%**	**7.8%**	**6.0%**
Debt / EBITDA	**3.3x**	**3.8x**	**3.6x**	**3.7x**	**4.0x**
RCF / Net Debt	**16.0%**	**15.3%**	**15.5%**	**11.9%**	**15.0%**
FCF / Debt	**9.9%**	**-8.5%**	**1.0%**	**-0.6%**	**7.7%**
EBIT / Interest Expense	**3.3x**	**3.0x**	**3.2x**	**3.1x**	**3.0x**
FFO / Net Debt	**20.3%**	**19.1%**	**19.2%**	**14.8%**	**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 is a fully integrated company whose operations range from the sourcing of raw materials to the production of semi-finished and finished chocolate products. In the first three months to November 2009, the company reported revenues of CHF1.45 billion (around EUR 0.96 billion). Barry Callebaut is present in 26 countries, operates 40 production facilities and employs around 7,500 people.

Rating Rationale

Barry Callebaut's Ba1 corporate family rating (CFR) reflects the company's relatively solid business profile, characterised by stable revenues and highly predictable margins and cash flows, but also a financial profile that is relatively weak for the rating category. However, Moody's notes that the company's credit metrics swiftly recovered within the Ba range in 2009, mainly as a result of the elimination of start-up costs for the new factories opened in Russia and in China in 2008, and the margin improvement in outsourcing contracts as volumes and capacity utilisation have increased. Moody's expects Barry Callebaut's metrics to continue to strengthen within the Ba range in 2010, despite a difficult chocolate market and high cocoa prices supported by supply shortages.

Moody's Ba1 rating on the senior unsecured notes, at the same level as the CFR, reflects the fact that they rank pari passu with all other unsecured debt, including the EUR 850 million credit facility, and our understanding that they will be subordinated only to approximately CHF100 million of secured debt and debt at the non-guarantor level.

Recent Developments

On 13 January 2010, Barry Callebaut reported a 7.2% sales volume increase for the first three months of fiscal year (FY) 2009/2010, and a 6.3% revenues increase in local currencies, with growth stemming from all regions and all product groups. The most significant volume increases were in Asia (+17.7%) and the Americas (+15.6%). In reporting currency, revenues grew by only 1.5% in the period as a result of the appreciation of the Swiss Franc against major currencies. Despite a difficult market environment characterised by lower consumer spending, de-stocking and increased price sensitivity, the company maintained profitability in line with expectations through market share gains and cost controls. On 12 November 2009, Barry Callebaut updated its three-year financial targets for the period 2009/10-2011/12: an annual top-line growth of 6-8% and EBIT growth at least in line with the volume growth.

Rating Drivers

Moody's assessment of Barry Callebaut, based on our Global Food Protein and Agriculture Industry Methodology, published in September 2009, results in a Ba1 CFR with a business profile largely in the Baa range and a weaker financial profile that falls in the Ba and B ranges. Based on Moody's methodology, the key factors influencing the company's current ratings are:

Factor 1: Size, Scale & Diversification. Barry Callebaut's ratings reflect its established presence in all major global markets, with increasing presence in new markets such as Russia and China - where it has built new capacity - and India and Brazil. Nonetheless, Moody's notes that in the first three months to November 2009, Barry Callebaut continued to generate the majority of its revenues in Europe, where sales represented 63% of the total. In addition, our assessment of the company's business profile remains constrained by its heavy reliance on several politically unstable countries for sourcing cocoa, in spite of its recent efforts to diversify and to build strong business relations with cocoa farmers.

Factor 2: Franchise Strength & Growth Potential. Moody's mapping of Barry Callebaut to the Baa category for this factor reflects its relatively resilient performance in terms of volume growth compared with the global chocolate market, which declined by 2% during the FY 2008/2009. Thanks to its diversified portfolio, ranging from premium chocolate to private-label and value-for-money products, the company was able to mitigate the decrease in consumer spending, especially in its Food Service/Retail Business segment, where consumers currently tend to prefer low-end products. Moody's continues to view Barry Callebaut's investments in developing markets as long-term opportunities, despite currently difficult market conditions, particularly in China, India and Russia, where the company recently opened its first Chocolate Academies. After signing strategic long-term agreements with Nestlé, Cadbury and Hershey in 2007, the company announced in January 2008 an agreement with Morinaga to expand its presence in Japan, alongside the acquisition of additional production capacity in Tanzania and Malaysia in April 2008. On 15 January 2009, Barry Callebaut inaugurated its new 100,000 tonne factory in Monterrey, Mexico, to service the local Mexican market, the southern region of the United States and Central and South America.

Factor 3: Earnings Volatility. Cocoa, dairy products and sugar are the most important raw materials that Barry Callebaut sources. Despite volatile cocoa prices and high sugar prices, the company continued to grow its EBITA in 2009, benefiting from its cost-plus model, which covers approximately 80% of its sales volumes. In addition, as new production facilities in Mexico and in Japan became available in January 2009, the acceleration in outsourcing volumes had a positive impact on Barry Callebaut's profitability, offsetting the decrease in the combined cocoa ratio (the combined sale prices of cocoa butter and cocoa powder relative to the cocoa bean price) in the second half of FY 08/09. Moody's positively views Barry Callebaut's cost-control initiatives aimed at mitigating potential margin erosion in both mature markets and emerging markets, where the company has started to witness changing consumer preferences, with private labels being favoured over branded products. Moody's expects the company's EBITA margin to remain under pressure in 2010 as it is likely that the global chocolate market will continue to experience unfavourable product mix. In addition, Barry Callebaut's margins remain exposed to a rapid increase in cocoa prices for the 20% of its business based on price lists, given the time lag required to adjust prices in line with input costs.

Factor 6: Financial Measures. Barry Callebaut reported improved financial metrics in FY 2009 compared with the previous year, except for its EBITA margin, which remained flat. The improvement in credit measures mainly resulted from the reversal in working capital movements and from lower capital expenditures, since the company's expansion plan to service outsourcing contracts has been completed. Given the volatility in the industry, single-year measures may vary greatly from the general trend as a result of swings in commodity prices, among other reasons. Therefore, Moody's also tends to calculate three-year average metrics to get a clearer picture of performance. On a three-year average basis, Barry Callebaut's credit metrics fall mainly in the Ba category, with the exception of the cash flow from operations (CFO)/ net debt and retained cash flow (RCF) less capex/debt ratios, which map within the B range. Although the economic environment will likely remain challenging in 2010, Moody's expects Barry Callebaut's financial ratios to continue to move towards the high end of the Ba category thanks to the company's cost-control initiatives and normalised level of capex.

Liquidity

Moody's views Barry Callebaut's liquidity position as adequate. The company's requirements are significant and difficult to predict because of the volatility of cocoa prices, which can be impacted by weather conditions and political events. Working capital tends to peak in the fiscal first and third quarters, as a result of an increase in both inventories and receivables, and tends to ease at fiscal year-end.

At the end of the FY 2009, EUR 850 million of the revolving credit facility remained available to Barry Callebaut. Moody's expects the majority of the revolving facility to remain undrawn over its life and to provide a back-up to the company's asset-backed security (ABS) and commercial paper (CP) programmes, which amounted to CHF262 million and CHF195 million, respectively, at the end of August 2009.

Moody's current ratings of Barry Callebaut assume that the company will maintain sufficient liquidity to fund its growth strategy, but also to cover potentially higher levels of volatility in working capital cycles and provide a back-up facility for its ongoing ABS and CP programmes. Our current assessment of Barry Callebaut's liquidity position reflects the high price of cocoa beans and the headroom under the company's existing covenants, both of which are expected to improve in the medium term.

Rating Outlook

The stable outlook reflects Moody's expectation that Barry Callebaut's market position and innovative capabilities will enable it to maintain profitability in line with its current rating, despite the current turbulent economic environment.

What Could Change the Rating - Up

Positive pressure on Barry Callebaut's rating and outlook may result from the ability of the company to maintain an RCF/net debt ratio close to 20% and EBITA margins in the high-single digits, leading to a debt/EBITDA ratio of close to 3.5x on a sustainable basis.

What Could Change the Rating - Down

The company's ratings or outlook could face negative pressure from a deterioration of the company's margins, leading to a debt/EBITDA ratio above 4.5x and an RCF/net debt ratio below the mid-teens.

Rating Factors

Barry Callebaut AG

Global Food - Protein and Agriculture Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Size, Scale and Diversification							
a) Total Sales (USD)				4.6 bln			
b) Geographic Diversification - Sales			X				
c) Geographic Diversification - Raw Materials					X		
d) Segment Diversification						X	
Factor 2: Franchise Strength and Growth Potential							
a) Market Share				X			
b) Organic Volume Growth				X			
c) Product Portfolio Profile				X			

Factor 3: Earnings Volatility							
a) Worst One Year Change in EBITA Over Past 5 Years		X					
Factor 4: Liquidity Under Stress							
a) Liquidity Under Stress (not disclosed)							
Factor 5: Financial Policy							
a) Financial Policy Assessment					X		
Factor 6: Financial Measures							
a) CFO / Net Debt (3-year average)						15.9%	
b) Debt / EBITDA (3-year average)					3.6x		
c) RCF / Net Debt (3-year average)					15.6%		
d) EBITA / Interest Expense (3-year average)					3.2x		
e) (RCF-Capex) / Debt (3-year average)						4.0%	
Rating:							
a) Indicated Rating from Methodology					Ba1		
b) Actual Rating Assigned					Ba1		

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