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Research Update:

Barry Callebaut Upgraded To 'BBB-' On Moderate Financial Policy And Improved Financial Metrics; Outlook Stable

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Overview

- We think that the improvement in the financial metrics of Switzerland-based chocolate manufacturer Barry Callebaut AG is sustainable, based on the group's track record of a moderate financial policy and stable funds from operations.
- We are therefore raising our long-term corporate credit and issue ratings on Barry Callebaut to 'BBB-' from 'BB+'.
- The stable outlook reflects our view that, absent any large mergers or acquisitions, Barry Callebaut will continue to generate positive cash flow from operations and maintain a moderate financial policy.

Rating Action

On Dec. 13, 2011, Standard & Poor's Ratings Services raised its long-term corporate credit and issue ratings on Switzerland-based chocolate manufacturer Barry Callebaut AG to 'BBB-' from 'BB+'. The outlook is stable.

At the same time, we withdrew our '4' recovery rating on Barry Callebaut's unsecured bonds and revolving credit facility (RCF), since we do not assign our recovery ratings to investment-grade debt.

Rationale

The upgrade reflects our view that the improvement in Barry Callebaut's financial metrics is sustainable. We base this view on the group's track record of adhering to a moderate financial policy and steady cash flow from operations despite the uncertain macroeconomic environment.

Adjusted funds from operations (FFO) to debt improved to 27.5% in Aug. 31, 2011, from 26.5% in same period last year. Standard & Poor's-adjusted debt to EBITDA improved to 2.7x from 2.9x in the same periods.

In the 12 months to Aug. 31, 2011, Barry Callebaut generated revenues of about Swiss franc (CHF) 4.5 billion and reported EBITDA of CHF432.1 million, reflecting its leading position in the global chocolate production market. In the year ending Aug. 31, 2011, Barry Callebaut increased its revenues by 0.7% year on year, with volume growth of 7.2%. Its operating profit rose by 5.7% on a reported basis, to CHF360.6 million, from CHF341.1 million a year earlier. Despite weakening economic conditions across Europe and in North America,

Barry Callebaut managed to largely protect its revenue base in 2011. Similarly, for the year ending Aug. 31, 2011, the group reported a stable EBITDA margin of almost 9.5% on the back of a continued focus on costs, compared with 9.2% for the 12 months to Aug. 31, 2010.

The ratings reflect our assessment of Barry Callebaut's business risk profile as "satisfactory" and its financial risk profile as "intermediate," reflecting the improvement in the group's financial metrics in the past two years.

The group's "satisfactory" business risk profile is underpinned by its diversified product and geographic position, alongside its cost-plus pricing model, which enables the group to pass on price increases in raw materials to its customers.

Barry Callebaut's business model is supported by the steady levels of demand from its well-diversified client base--particularly from food manufacturers--as well as by its operating scale and efficiency. In addition to these operating performance considerations, our rating incorporates improved financial metrics due to prudent cost management despite exposure to volatile cocoa prices.

At the end of August 2011, Barry Callebaut's adjusted debt remained at about CHF1.2 billion, representing a ratio of 2.7x fully adjusted debt to EBITDA. We forecast that Barry Callebaut will be able to maintain its adjusted debt to EBITDA within the range of 2.5x-3.0x. This forecast of a sustained reduction in leverage is further supported by our opinion that Barry Callebaut is unlikely to undertake a transformative acquisition in the near term and that it will continue to follow a moderate financial policy.

Liquidity

We assess Barry Callebaut's liquidity profile as "adequate" under our criteria. (For further information on our criteria, see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," published Sept. 28, 2011, on RatingsDirect on the Global Credit Portal.)

In our opinion, the group's current liquidity sources comfortably cover its short-term debt maturities. On Aug. 31, 2011, Barry Callebaut had cash of about CHF42.4 million and about CHF447 million of availability under its CHF695 million (€600 million) RCF. On the same date, short-term debt due in the next 12 months was about CHF147.3 million.

Furthermore, we anticipate that Barry Callebaut should be able to generate at least CHF300 million in FFO every year for the next three years. This will comfortably cover capital expenditures of about CHF150 million each year.

We estimate that the group's liquidity sources (including cash, FFO, and the significant availability under its existing RCF) over the next 12 months should exceed its uses by more than 1.2x. Even if EBITDA were to decline by 15%-20%, we believe that net sources would remain positive.

We also understand that Barry Callebaut will retain adequate headroom under its main covenants.

Outlook

The stable outlook reflects our view that Barry Callebaut is well positioned to continue to generate positive free operating cash flow, as well as to maintain a moderate financial policy. Financial measures that we deem adequate for the current rating include adjusted debt to EBITDA of 2.5x-3.0x and FFO to debt of about 30%, which we consider commensurate with an "intermediate" financial risk profile.

Rating downside could arise if Barry Callebaut were to deviate from the trend of steady organic growth, which supports our view of the quality of its earnings. This could occur if there were a disruption to supply in a cocoa-producing region. Furthermore, a sizable, largely debt-financed acquisition resulting in leverage of more than 3x would not be compatible with our assessment of an "intermediate" financial risk profile.

We consider rating upside to be constrained by Barry Callebaut's capital-intensive business model, volatile working capital movements, and its existing financial policy.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Barry Callebaut AG		
Barry Callebaut Services N.V.		
Corporate Credit Rating	BBB-/Stable/--	BB+/Positive/--

Upgraded; Rating Withdrawn

	To	From
Barry Callebaut Services N.V.		
Senior Unsecured Debt	BBB-	BB+
Recovery Rating	NR	4

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