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Barry Callebaut AG

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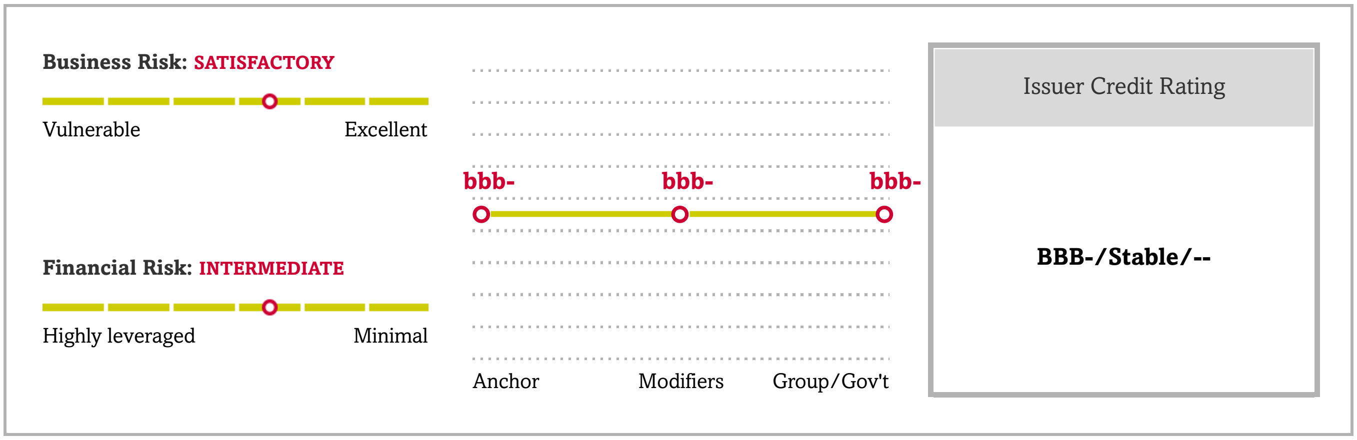
Barry Callebaut AG



Credit Highlights

Overview

Key strengths	Key risks
Global leader in cocoa processing and chocolate manufacturing.	Low growth prospects in Barry Callebaut's main markets like Europe and North America.
Growth potential from emerging markets, new outsourcing contracts, and an expansion of the Gourmet & Specialties business.	The less profitable nature of cocoa processing and sensitivity to volatile commodity prices.
Profit stability thanks to the large customer base and a cost-plus pricing model for a sizable part of the business.	Large supplies of cocoa from high-risk countries like the Ivory Coast, offset by a long track record of sourcing cocoa from these countries and diversification efforts.
Track record of positive free operating cash flow (FOCF) and our forecast of stable S&P Global Ratings-adjusted leverage of 2.3x-2.6x.	Large intra-year working capital swings.
A consistent dividend policy and a focus on small-to-midsize acquisitions.	

The negative impact of the COVID-19 pandemic should persist in the short term, but we see EBITDA rebounding at the end of the year. The pandemic and related store closures caused Barry Callebaut's EBITDA generation to drop by 12% last year. The group also experienced a volume decline for the first time in 10 years. This is because of weaker consumer demand for chocolate products, as home consumption did not compensate for lower on-the-go and impulse purchases.

More importantly, many bars, restaurants, and artisan chocolate makers closed due to new health regulations, and this hit the relatively small but highly profitable Gourmet & Specialty business (14% of sales). This business provides products and services to artisan chocolate makers and professional users. As a result, the group's EBITDA dropped by 17% in Europe, the Middle East, and Africa (EMEA) and by 12% in Asia-Pacific. Both these regions generate a higher share of earnings from Gourmet & Specialty than North America.

Lockdowns have now eased in several countries for the Christmas and New Year season, an important time for sales of chocolate products. That said, we remain cautious about a sustained strong rebound in demand until COVID-19 vaccines are made widely available, particularly in Europe. In our base case, we assume that this will not happen before mid-2021, in the fourth quarter of Barry Callebaut's financial year.

Over the medium term, we continue to see limited market growth prospects for chocolate products in Europe and North America. Volume growth should therefore come mainly from increasing chocolate consumption in Asia-Pacific; new outsourcing contracts for chocolate manufacturing in mature markets; and a sustained recovery of demand from the fourth quarter of 2020 in the Gourmet & Specialties business.

The focus on creating high-value, sustainable products is key to support growth and increase profits in mature markets. As a processor and manufacturer of cocoa and chocolate products, Barry Callebaut's profitability can feel the effects of external factors like the pandemic, but more frequently, of volatile raw material prices and price pressure from competition. We believe that the group's pricing structure, as well as its focus on increasing the value of its products and differentiating them from those of competitors through innovation and traceability, are as important in the long term as efficiencies from economies of scale.

We see growth opportunities in mature confectionary markets for low-sugar, dairy-free, and vegan chocolate products. We also believe that the group's sustainability credentials regarding child labor, farmers' living income, and carbon footprint should enable it to retain its main industrial clients and support its pricing power. Barry Callebaut's initiatives last year include the sustainable sourcing of 100% of the cocoa in all Gourmet & Specialties brands (Cacao Barry, Callebaut, Carma), and public disclosure of all its direct supply-chain in Ivory Coast and Ghana.

Contrary to a number of other chocolate producers, Barry Callebaut has agreed to pay the additional living income differential of $400 per ton of cocoa beans that governments in the Ivory Coast and Ghana have imposed from the 2020-2021 crop season. We think the group will be able to pass this additional sum on to its customers thanks to the price structure of its contracts.

Under our base case, we forecast an adjusted EBITDA margin of close to 11.0% in 2021--above the five-year average of 10.2%--and a stable return on capital of 12.5%-13.0%, in line with the five-year average.

Outlook: Stable

The stable outlook on Barry Callebaut reflects our view that the group's operational performance should gradually recover this year from the negative impact of the pandemic on demand. We believe the group's large scale of operations, diverse customer base, pricing policy, and working capital control should enable it to generate resilient cash flows over the next two years.

Under our base case, we forecast that Barry Callebaut will maintain adjusted debt leverage between 2.3x and 2.6x, with adjusted funds from operations (FFO) to debt above 30%. We also forecast that the group will maintain positive FOCF of Swiss franc (CHF) 215-CHF275 million in the next two years, with some tolerance for short-term working capital swings due to volatile cocoa prices driving up inventories temporarily.

Downside scenario

We could lower the rating if Barry Callebaut's credit metrics worsen on a sustained basis, with adjusted debt leverage rising above 3.0x. This could stem from a deviation from the group's financial policy such that it pursues a large debt-financed acquisition or materially increases its shareholder remuneration.

We would also view negatively a lasting drop in profitability due to continued weak volumes in cocoa processing, a high amount of competitive pressure and operational disruption, and weaker growth prospects than we expect in chocolate manufacturing and the Gourmet & Specialties business.

Upside scenario

We could raise the rating if Barry Callebaut demonstrates improved business diversity outside cocoa processing. This would support revenue stability and strong profitable growth over the next two years. We would also consider raising the rating if adjusted debt leverage decreases to well below 2.0x, with FFO to debt well within the 45%-60% range, supported by a large FOCF base. This is contingent on the group adopting a supportive financial policy to maintain the credit metrics above.

Our Base-Case Scenario

Assumptions

- A decline in GDP of 4.1% in 2020, and growth of 4.0% in 2021 and 2.4% in 2022.
- A gradual rebound in the global chocolate market in the 2020-2021 reporting year, driven first by Asia-Pacific and then the rest of the world. This reflects our view that the out-of-home market will pick up as lockdowns lift permanently by the end of June 2021. Thereafter, we see a strong rebound in heavily affected segments like Gourmet & Specialties.
- Revenues of CHF7.1 billion in 2020-2021 and about CHF7.5 billion in 2021-2022. This assumes a gradual rebound in volumes this year due to subdued out-of-home demand. We assume higher volumes from next year, as demand, especially in EMEA and Asia-Pacific, should pick up more robustly.

- An adjusted EBITDA margin of around 10.5% this year, rising to about 11.0% next year. We continue to see adverse effects from subdued sales in the high-margin Gourmet & Specialties business for most of this year, but with a rebound from next year. Next year, we also see higher gross profit offset by higher marketing, sales, and distribution expenses, as Barry Callebaut will want to push on with its expansion.
- FOCF of about CHF210 million-CHF230 million this year and CHF250 million-CHF275 million next year, with negative working capital movements year on year, and capital expenditure (capex) of 4.0%-4.5% of revenue.
- Adjusted net debt of about CHF1.90 billion-CHF1.95 billion. Notably, we assume about CHF1.5 billion of reported net debt (including lease liabilities), CHF324 million of trade receivable securitizations, CHF113 million of net pension deficit, and about CHF120 million-CHF150 million of estimated annual cash dividends. We estimate restricted cash at about CHF90 million. We do not net from debt readily marketable inventories like cocoa beans as they are held for processing.

Key metrics

Barry Callebaut AG--Key Metrics*

	--Fiscal year ended Aug. 31--		
(Mil. CHF)	**2019/2020**	**2020/2021e**	**2021/2022e**
Debt to EBITDA	2.6	2.4-2.6	2.3-2.5
FFO to debt	30.6	30-35	30-35
FOCF to debt	19	14-18	15-20

e--Estimate. CHF--Swiss franc. FFO--Funds from operations. FOCF--Free operating cash flow. *All figures adjusted by S&P Global Ratings.

Barry Callebaut should continue to generate positive FOCF, but its working capital and capex needs may increase. We project that FOCF will remain largely positive at CHF215 million-CHF275 million over the next two years. This is slightly lower than this year because, despite our forecast of higher EBITDA, we think that volume growth may only pick up gradually. This, combined with higher prices for cocoa and sugar, should have a negative effect on working capital movements. The business has inherently large intra-year working capital movements, but the group has a good track record in securing supplies from high-risk countries and managing receivables and payables. We assume that the group's expansion strategy remains unchanged, reflecting moderate capex intensity for an agribusiness company at 4.0%-4.5% of revenue.

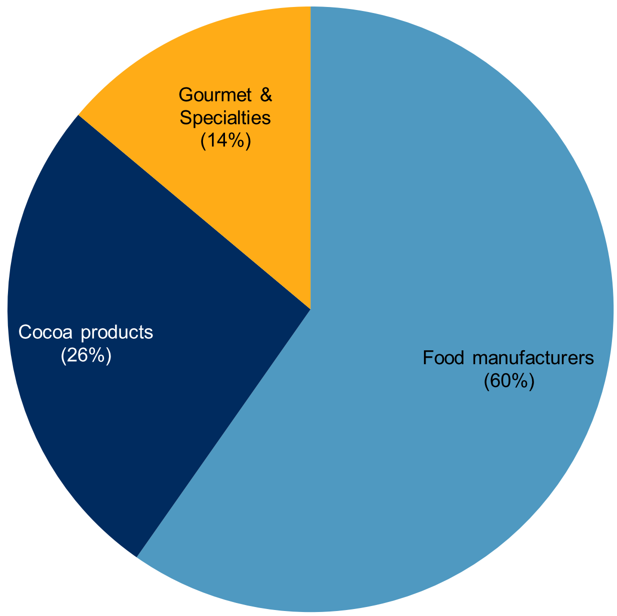
Credit metrics should remain stable, supported by a prudent acquisition and shareholder-remuneration policy. We project that Barry Callebaut's adjusted debt leverage will remain stable at around 2.3x-2.6x over the next two years. We project that the EBITDA base will rebound toward CHF750 million-CHF815 million, notably thanks to a gradual increase in volumes and positive long-term growth prospects overall. We expect the group to continue to pursue a consistent financial policy, with a focus on acquisitions of small-to-midsize companies, a stable dividend policy with a payout ratio of 35%-40% of earnings, and share repurchases only for management's long-term incentive plan.

Company Description

Barry Callebaut, headquartered in Switzerland, is a cocoa processor and manufacturer of chocolate and cocoa products. For the 2019-2020 reporting year, the group generated revenues of CHF6.9 billion and adjusted EBITDA of CHF723 million.

Chart 1

Revenue Breakdown By Activity 2019-2020



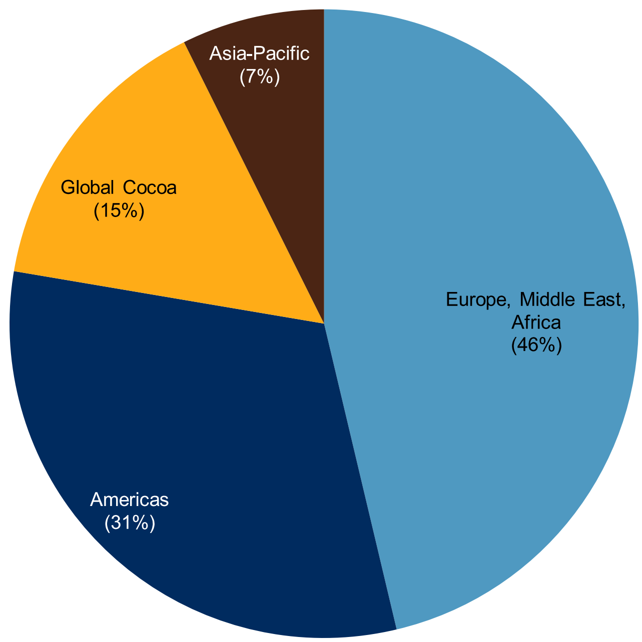
Source: S&P Global Ratings.

Barry Callebaut operates in three main segments:

- Food manufacturers: CHF4.1 billion of revenues (60% of total sales) from the sale of chocolate products to food producers.
- Global Cocoa: CHF1.8 billion of revenues (24% of total sales) from the sale of cocoa products to food producers.
- Gourmet & Specialties: CHF958 million of revenues (14%) from the sale of chocolate products to artisans, chocolatiers, food chains, and distributors.

Chart 2

EBIT Breakdown By Geography 2019-2020



Source: S&P Global Ratings.

Barry Callebaut's EBIT breakdown is as follows: EMEA, 46%; the Americas, 31%; Asia-Pacific, 7%; and global cocoa, 15%. The group operates 61 factories and sells products in over 143 countries.

Barry Callebaut is listed on the Zurich Stock Exchange, with about 55% of its shares in free float. Its largest shareholder is family holding company Jacobs Holding, with 40.1% of the share capital and voting rights. Renata Jacobs of the Jacobs family also owns 5% separately. The rest of the shares are mostly held by institutional investors.

Peer Comparison

Suedzucker AG is the largest European producer of sugar and ethanol, with sizable activities in food and beverages, starch, and ingredients. Suedzucker's EBITDA base is large, but more volatile than Barry Callebaut's because of the cyclicality of the sugar and ethanol activities. Despite a recent profit warning, Suedzucker's profitability in sugar should be higher than last year thanks to higher European sugar prices and cost savings. Suedzucker is also prudent about dividends and acquisitions to ensure it can deleverage this and next year. We project adjusted debt leverage of 3.5-4.0x for Suedzucker (versus 2.5x for Barry Callebaut) over the next 12-18 months, with FOCF between €200 million and €300 million annually.

Louis Dreyfus Co. B.V. (LDC) is a global commodity trading and processing group. LDC has more diversified business activities than Barry Callebaut, with a wide number of agriculture commodities, such as grain, soybean, coffee, and cotton. It also has large processing activities in food commodities, such as oilseeds and refined sugar. The group is present in all the main regions of the world, with greater exposure to Asia-Pacific as a destination market than Barry Callebaut. We project that LDC's EBITDA will be around $1.2 billion this year and next thanks to strong demand, notably in China. LDC's recent new ownership structure, with Abu Dhabi Developmental Holding Company PJSC taking a 45% stake in the group, should result in lower debt and dividend pressure. We project adjusted debt leverage of around 2.5x in the next two years, a similar level to Barry Callebaut.

Tate & Lyle PLC is a producer of specialty and commodity food ingredients. Overall, Tate & Lyle has a smaller revenue and EBITDA base than Barry Callebaut and a lower global market share in its industry. However, it has a fast-growing and highly profitable specialty ingredients business, which enables it to enjoy much higher profitability than Barry Callebaut. Tate & Lyle has a sizable sweeteners business in North America, which is in structural decline, but still necessary for the product range and economies of scale. This enables Tate & Lyle to generate stable earnings and FOCF of £250 million-£300 million annually, comparable to Barry Callebaut. Tate & Lyle's credit metrics are stronger than Barry Callebaut's, with adjusted debt leverage of 1.0x-1.5x, given Tate & Lyle's stable dividend and prudent acquisition policies.

Table 1

Barry Callebaut AG--Peer Comparison

Industry sector: Agribusiness

	Barry Callebaut AG	**Suedzucker AG**	**Louis Dreyfus Co. B.V.**	**Tate & Lyle PLC**
Ratings as of Dec. 1, 2020	BBB-/Stable/--	BBB-/Negative/A-3	BBB-/Positive/A-3	BBB/Stable/A-2
	--Fiscal year ended--			
	Aug. 31, 2020	**Feb. 29, 2020**	**Dec. 31, 2019**	**March 31, 2020**
(Mil. CHF)				
Revenue	6,893.1	7,100.5	32,583.7	3,457.2
EBITDA	722.9	495.1	756.4	626.2
Funds from operations (FFO)	573.7	379.8	444.5	531.4
Interest expense	103.8	67.2	367.1	39.6
Cash interest paid	94.1	32.9	368.0	36.0
Cash flow from operations	641.7	158.3	916.2	509.8
Capital expenditure	280.9	356.9	296.4	199.1
Free operating cash flow (FOCF)	360.8	(198.6)	619.8	310.7
Discretionary cash flow (DCF)	190.7	(300.2)	205.3	120.0
Cash and short-term investments	1,392.2	494.9	725.4	325.1
Debt	1,894.9	2,946.3	3,461.6	778.5
Equity	2,355.3	3,561.2	4,646.9	1,678.2
Adjusted ratios				
EBITDA margin (%)	10.5	7.0	2.3	18.1
Return on capital (%)	11.2	0.9	4.7	16.2
EBITDA interest coverage (x)	7.0	7.4	2.1	15.8

Table 1

Barry Callebaut AG--Peer Comparison (cont.)				
FFO cash interest coverage (x)	7.1	12.5	2.2	15.8
Debt/EBITDA (x)	2.6	6.0	4.6	1.2
FFO/debt (%)	30.3	12.9	12.8	68.3
Cash flow from operations/debt (%)	33.9	5.4	26.5	65.5
FOCF/debt (%)	19.0	(6.7)	17.9	39.9
DCF/debt (%)	10.1	(10.2)	5.9	15.4

CHF--Swiss franc.

Business Risk: Satisfactory

Barry Callebaut is the world's largest manufacturer of industrial chocolate, with about a 40% market share in volume terms, and the largest processor of cocoa beans. Barry Callebaut's large production capacities (2.1 million tons of sales by volume in 2019-2020), full vertical integration from origination to manufacturing, and a broad production footprint enable the group to achieve economies of scale and be close to end markets.

Despite the negative impact from pandemic-related lockdowns and on-the-go chocolate consumption, we continue to see positive long-term volume growth prospects, primarily in emerging markets--notably Asia-Pacific--where the consumption of confectionary foods and beverages is increasing. Market growth prospects should remain low in mature markets due to changes in consumption habits and stricter regulations. Still, we see some volume growth potential in the mature markets from new outsourcing contracts, as an increasing number of food manufacturers disengage from production activities. In addition, the group's large range of sustainably sourced and innovative products like sugar-free, dairy-free, and vegan chocolate should help it to increase the value of its products and maintain market share.

Barry Callebaut benefits from a long-established, wide customer base, mostly comprising large food multinationals that can have strong bargaining power. The largest customer accounted for 12% of revenues last year. However, Barry Callebaut is increasingly signing up midsize regional and local manufacturers, helping to diversify its customer base. We estimate that Barry Callebaut generates two-thirds of its sales in mature markets, with Europe being its largest region and the U.S. its largest single market (18%).

Having been an established player for decades, Barry Callebaut has strong sourcing relationships and a track record of obtaining steady supplies of cocoa beans from high-risk countries in West Africa, notably the Ivory Coast. The Ivory Coast accounted for 43% of global volumes last year according to The International Cocoa Organization's estimates. Still, the group has made efforts to diversify its sources to offset concentration risk, opening a new facility in South America. It also continues to add new production capacities in emerging markets--including India and Serbia in 2021--to respond to growing demand and new industrial contracts.

We continue to value Barry Callebaut's ability to maintain stable profitability overall, even in a challenging year hit by pandemic-related disruptions. The group is able to control its operating costs thanks to the cost-plus pricing model it applies to a large number of its sales contracts. Still, we assess the Global Cocoa division as less profitable than chocolate manufacturing, and more sensitive to fluctuations in commodity prices--notably cocoa, sugar, and dairy products--due to higher operating leverage and a less favorable pricing structure that is only partly cost plus.

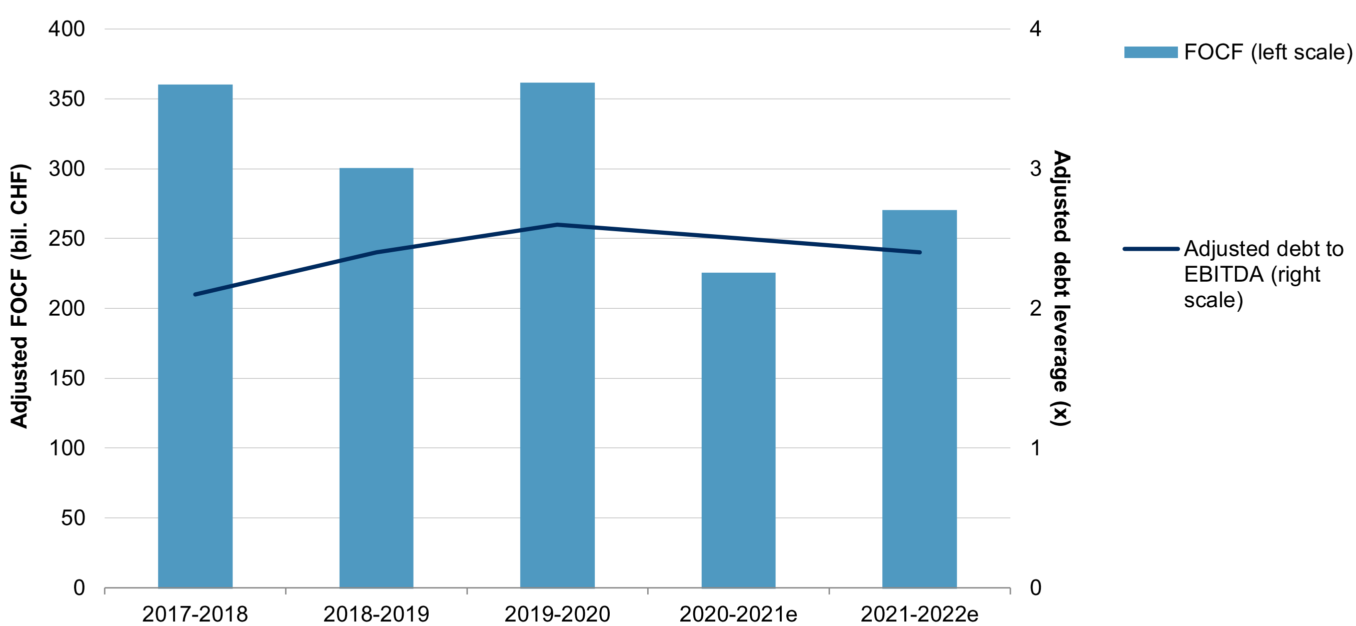
Over the medium term, we see potential for gradual improvement in profitability from the expansion of higher-margin Gourmet & Specialties business. Other profitable growth drivers include high-value and sustainable chocolate products, such as ruby chocolate, vegan, dairy-free, and low-sugar chocolate.

Financial Risk: Intermediate

Barry Callebaut's financial position is mainly supported by our forecast of positive FOCF of between CHF215 million and CHF275 million per year for the next two years, and stable adjusted debt leverage of around 2.3x-2.6x.

Chart 3

FOCF And Adjusted Debt Leverage Trends



e--Estimate. FOCF--Free operating cash flow. CHF--Swiss franc. Source: S&P Global Ratings.

Barry Callebaut's cash flows are subject to large seasonal working capital swings, but we consider its capex intensity as moderate for an agribusiness company. Barry Callebaut sources and stores large quantities of cocoa beans from Africa, Latin America, and Asia-Pacific. It then processes the beans to make cocoa and chocolate products.

Working capital can be affected by the volatility of the prices for cocoa beans, sugar, and dairy products, but we understand that commodity price risk is mitigated through back-to-back hedging. Barry Callebaut also has a long track record in managing intra-year working capital swings (the peak is in February each year due to the timing of cocoa harvest), and in securing steady supplies of cocoa beans from high-risk growing countries like the Ivory Coast. We continue to see a good currency match between cash flows and debt, both mostly denominated in euros and U.S. dollars (the CFA franc used in countries like Ivory Coast is pegged to the euro).

The debt structure is well-diversified among revolving credit facilities (RCFs), senior notes, Schuldscheindarlehen, and commercial paper. The average debt maturity is 5.4 years, with no large maturities until 2023-2024. The group has lowered its average cost of debt through new Schuldschein--it issued CHF450 million in July 2020. while most of the debt remains at fixed rates or hedged against interest-rate risk.

We believe that Barry Callebaut will continue to follow a prudent expansion strategy, with a focus on Asia-Pacific and Latin America. The group is likely to want to acquire or build new production capacities as it gains new outsourcing contracts for chocolate and develops its Gourmet & Specialties business. Last year, Barry Callebaut acquired GKC Foods, which will enable it to set foot in Australia and New Zealand, a region where it had a low presence until now.

Barry Callebaut's largest shareholder by far remains Jacobs Holding AG, the founding family's holding company, with 40.1% of the share capital. Jacobs Holding has historically supported a stable dividend policy (the payout ratio is 35%-40% of net income), and we expect the shareholder remuneration policy to remain consistent for the next two years. That said, Jacobs Holding reduced its stake in Barry Callebaut from 50.1% to 40.1% in November 2019 and is therefore no longer a majority shareholder.

Financial summary

Table 2

Barry Callebaut AG--Financial Summary

Industry sector: Agribusiness					
	--Fiscal year ended Aug. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. CHF)					
Revenue	6,893.1	7,309.0	6,948.4	6,805.2	6,676.8
EBITDA	722.9	821.5	783.1	654.2	568.4
Funds from operations (FFO)	573.7	579.0	620.7	509.6	423.3
Interest expense	103.8	160.9	106.6	123.0	121.8
Cash interest paid	94.1	148.1	99.9	101.7	102.5
Cash flow from operations	641.7	579.7	577.7	659.9	638.8
Capital expenditure	280.9	279.6	217.9	220.4	201.0
Free operating cash flow (FOCF)	360.8	300.1	359.8	439.5	437.8
Discretionary cash flow (DCF)	190.7	145.8	266.9	336.7	341.4
Cash and short-term investments	1,392.2	559.4	405.8	399.4	456.9
Gross available cash	1,392.2	559.4	405.8	399.4	456.9
Debt	1,894.9	2,009.9	1,668.8	1,725.6	2,018.7
Equity	2,355.3	2,413.6	2,285.5	2,193.6	1,971.2

Table 2

Barry Callebaut AG--Financial Summary (cont.)

Industry sector: Agribusiness					
	--Fiscal year ended Aug. 31--				
	2020	**2019**	**2018**	**2017**	**2016**
Adjusted ratios					
EBITDA margin (%)	10.5	11.2	11.3	9.6	8.5
Return on capital (%)	11.2	14.7	14.9	12.4	10.2
EBITDA interest coverage (x)	7.0	5.1	7.3	5.3	4.7
FFO cash interest coverage (x)	7.1	4.9	7.2	6.0	5.1
Debt/EBITDA (x)	2.6	2.4	2.1	2.6	3.6
FFO/debt (%)	30.3	28.8	37.2	29.5	21.0
Cash flow from operations/debt (%)	33.9	28.8	34.6	38.2	31.6
FOCF/debt (%)	19.0	14.9	21.6	25.5	21.7
DCF/debt (%)	10.1	7.3	16.0	19.5	16.9

CHF--Swiss franc.

Reconciliation

Table 3

Barry Callebaut AG--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts

	--Fiscal year ended Aug. 31, 2020--						
Barry Callebaut AG reported amounts							
(Mil. CHF)	**Debt**	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	2,571.3	2,353.5	713.3	483.2	98.5	722.9	593.5
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(55.0)	--
Cash interest paid	--	--	--	--	--	(94.1)	--
Trade receivables securitizations	323.8	--	--	--	--	--	41.6
Reported lease liabilities	186.9	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	113.5	--	(3.0)	(3.0)	5.2	--	--
Accessible cash and liquid investments	(1,301.7)	--	--	--	--	--	--
Share-based compensation expense	--	--	12.5	--	--	--	--
Nonoperating income (expense)	--	--	--	7.0	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	6.5
Noncontrolling interest/minority interest	--	1.8	--	--	--	--	--
Debt: Guarantees	1.1	--	--	--	--	--	--

Table 3

Barry Callebaut AG--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (cont.)							
Total adjustments	(676.5)	1.8	9.5	4.0	5.2	(149.1)	48.1
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	1,894.9	2,355.3	722.9	487.1	103.8	573.7	641.7

CHF--Swiss franc.

Liquidity: Adequate

We assess Barry Callebaut's liquidity as adequate under our criteria. We project that sources of liquidity will likely cover uses by more than 1.2x, and that sources would cover uses even if forecast EBITDA declined by more than 30% over the next 12 months. Barry Callebaut retains solid, established relationships with a diversified pool of banks. It also benefits from a good track record of accessing capital markets.

We project the following principal liquidity sources and uses as of Aug. 31, 2020:

Principal liquidity sources	Principal liquidity uses
• Cash and cash equivalents and short-term deposits of CHF1.4 billion. • Undrawn committed credit lines of CHF1.08 billion, maturing in 2024. • Adjusted cash FFO of about CHF600 million in the next 12 months.	• CHF565 million of debt due within one year and CHF66 million due within one-to-two years. • Our estimate of CHF250 million of maximum intra-year working capital outflows. • Our forecast of about CHF300 million of capex for the next 12 months. • Our forecast of about CHF121 million of cash dividends for the next 12 months.

Debt maturities

As of Aug. 31, 2020:

- Due in 2020-2021: CHF602 million
- Due in 2021-2022: CHF95 million
- Due in 2022-2023: CHF379 million
- Due in 2023-2024: CHF496 million
- Due in 2024-2025 and thereafter: CHF1.185 billion

Covenant Analysis

Compliance expectations

The financial covenants are mostly on the CHF1 billion RCF maturing in June 2024. We understand there is significant headroom of more than 30%. The facility was undrawn at Aug. 31, 2020.

Requirements

The financial covenant tests measure profitability per ton, interest coverage, and tangible net worth.

Environmental, Social, And Governance

Barry Callebaut's products mostly derive from sourcing and processing cocoa beans. We do not believe that the group faces greater social or environmental risks than most of the agribusiness industry. In recent years, Barry Callebaut has invested in technology to better map its supply chain and ensure the traceability of its products.

In terms of social factors, the group is supporting programs to improve the living conditions of cocoa farmers, notably to increase their productivity. In 2019-2020, 37% of its cocoa farmers are no longer in poverty.

The use of child labor among cocoa farmers--Barry Callebaut's direct or indirect suppliers--remains widespread in key growing regions. That said, last year, Barry Callebaut ensured that 42% of its farmers had systems in place to prevent the use of child labor, and the third parties supplying 32% of the group's raw materials have also addressed child labor adequately. The group targets the complete eradication of child labor from its supply chain by 2025.

In terms of environmental risks, Barry Callebaut has managed to improve its carbon footprint, reducing it by 8.1% last year. However, deforestation continues in the main cocoa-growing regions. Barry Callebaut is involved in reforestation programs and 34% of its raw materials do not come from deforested areas. The group plans to be carbon positive by 2025.

Of Barry Callebaut's products, 37% contain 100% sustainable cocoa or chocolate. The target is 100% by 2025. The group also continues to innovate, and already has a range of low-sugar products to address health concerns from consumers and authorities.

Barry Callebaut's management and governance is satisfactory, reflecting the stability of management and the board's balanced composition. The board is mainly composed of independent directors and two representatives from the Jacobs family.

Issue Ratings - Subordination Risk Analysis

Capital structure

Barry Callebaut issues most of its senior debt through Barry Callebaut Services N.V., its group financing vehicle. Most of the long-term debt instruments are senior unsecured and guaranteed by Barry Callebaut AG.

Analytical conclusions

The long-term senior unsecured debt is rated 'BBB-', in line with our issuer credit rating on Barry Callebaut. This is because we assess limited structural subordination in the capital structure as total secured debt and debt at the operating companies are well below our 50% threshold.

Ratings Score Snapshot

Issuer Credit Rating

BBB-/Stable/--

Business risk: Satisfactory

- **Country risk:** Low
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Related Criteria

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Industrials: Key Credit Factors For The Agribusiness And Commodity Foods Industry, Jan. 29, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	**Intermediate**	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	**bbb/bbb-**	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of December 21, 2020)*

Barry Callebaut AG	
Issuer Credit Rating	BBB-/Stable/--
Issuer Credit Ratings History	
14-Nov-2018	BBB-/Stable/--
22-Dec-2017	BB+/Positive/--
29-Jul-2014	BB+/Stable/--
Related Entities	
Barry Callebaut Services N.V.	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.