



# Barry Callebaut

Roadshow presentation – Q1 2013/14

January, 2014



**BARRY CALLEBAUT**



# Agenda

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- ▶ **BC at a glance**

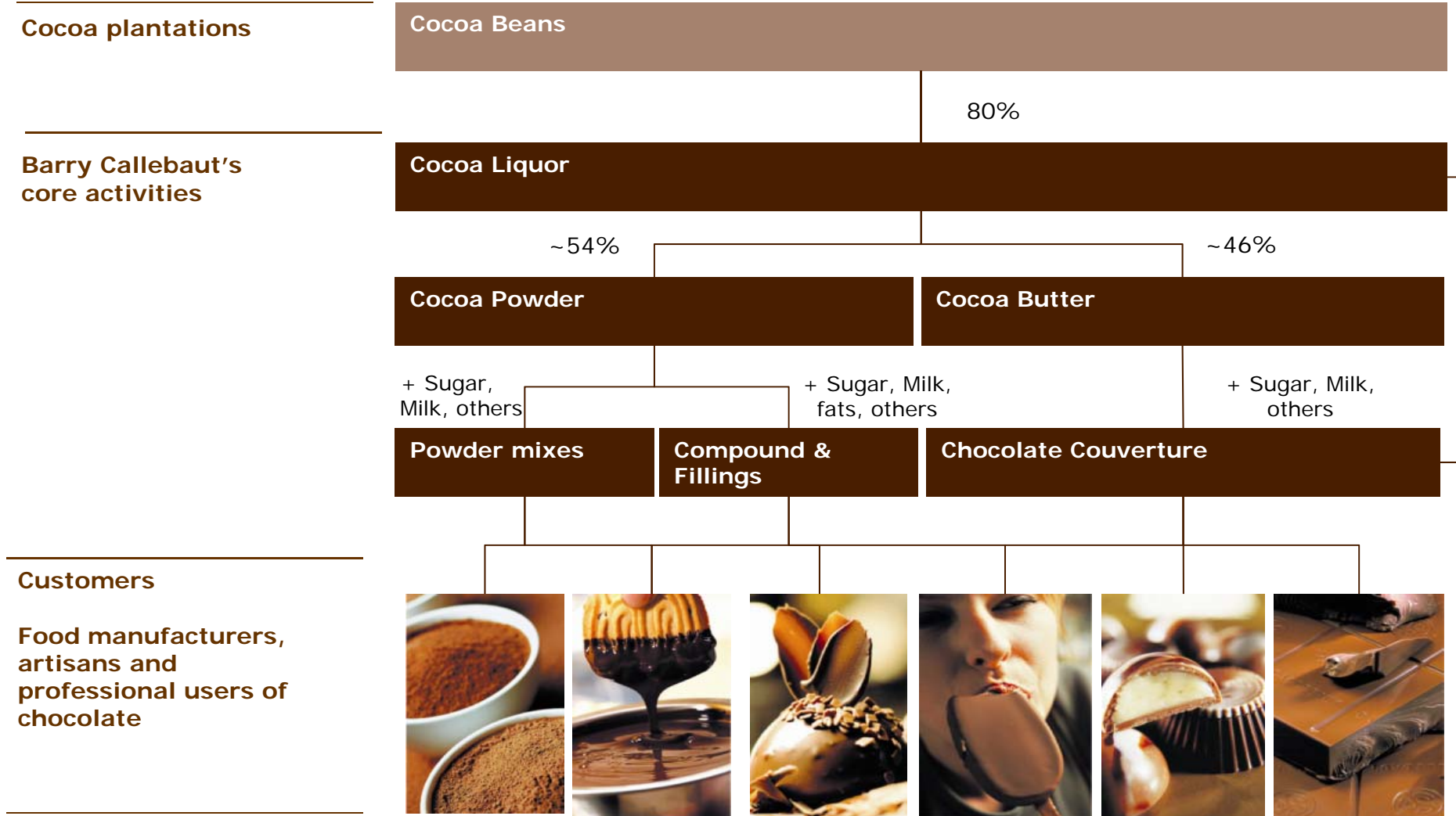
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- ▶ **Highlights Q1 2013/14**

- ▶ **Strategy update & Outlook**



# Barry Callebaut is present in all stages of the industrial chocolate value chain

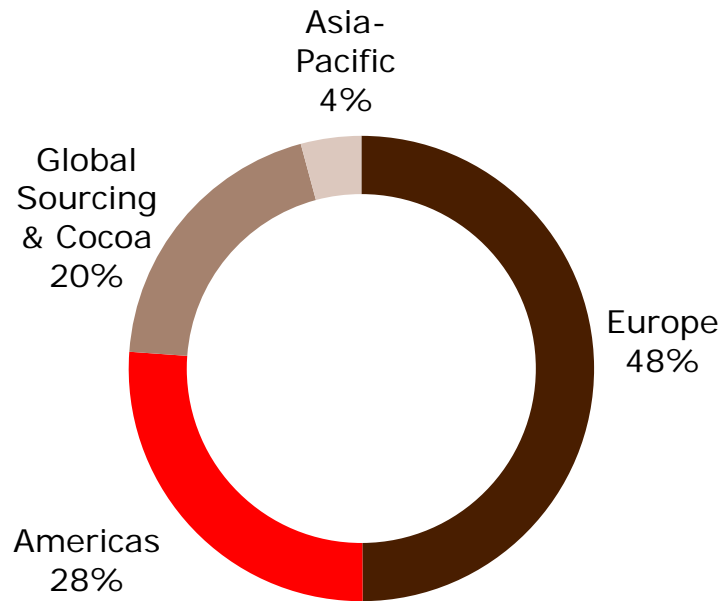




# Barry Callebaut at a glance

## FY 2012/13

Sales volume = 1,535,662 tonnes



Sales revenue = CHF 4,884.1 m

EBIT = CHF 339.6 m

Net Profit \* = CHF 229.3 m

\* From continuing operations

- **World leader** in high-quality cocoa and chocolate products and **outsourcing/strategic partner** of choice
- World's **largest supplier of Gourmet & Specialties** chocolate for artisanal customers
- Over **8'500 people** worldwide, more than **50** production facilities
- **Fully integrated** with a strong position in cocoa-origin countries
- **Over 6,000 recipes** to cater for a broad range of individual customer needs
- We **serve the entire food industry**, from industrial food manufacturers to artisans and professional users



# Robust business model

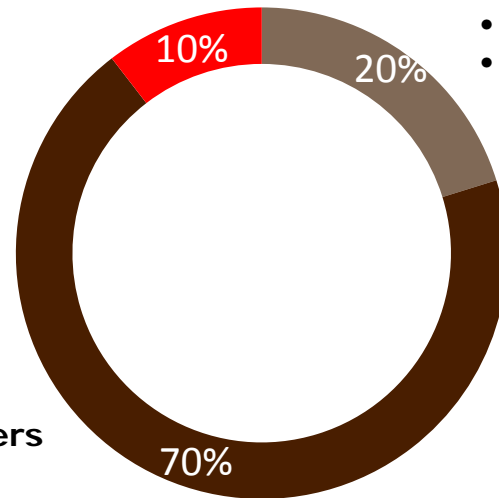
## Barry Callebaut business model

### Gourmet & Specialties

- Price List

### Cocoa Products

- Market prices
- Combined ratio
- Cost plus



### Food Manufacturers

- Cost plus



- ▶ Raw materials represent about 80% of operating costs

**For the majority of our business we pass-on the cost of raw materials to customers**



# Agenda

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- ▶ **BC at a glance**
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- ▶ **Highlights Q1 2013/14**
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- ▶ **Strategy update & Outlook**



## Highlights Q1 2013/14

- Solid start +19.5% volume growth incl. the recently acquired cocoa business (+4.6% stand-alone)
- Main growth drivers were the recently acquired cocoa business, emerging markets (+19.1%) and Gourmet (+9.7%)
- Good progress on integration of Petra Foods Cocoa business
- Mid-term financial targets confirmed





# Solid start- good progress on integration of acquired cocoa business



Europe

Americas

Asia-Pacific

Global Sourcing & Cocoa

Volume growth

+1.5%

+10.3%

+7.4%

+91.0%<sup>1</sup>

+4.4%<sup>2</sup>

Market volume growth<sup>3</sup>

+2.9%

+3.0%

+9.3%

Sales revenue (in local currencies)

+11.5%

+9.0%

+10.2%

+70.0%<sup>1</sup>

-6.3%<sup>2</sup>

1) Including acquisition of Petra Foods Cocoa Business 2)excluding acquisition of Petra Foods Cocoa Business

3) Source: Nielsen data (Sep -Nov 2013); - Top 25 countries of the global chocolate market in volume; - Americas includes USA, Canada, Brazil, Mexico and Chile; Eastern Europe includes: Russia, Ukraine, Poland, Turkey, Saudi Arabia and Egypt; Asia includes China, India, Indonesia, South Korea and Australia

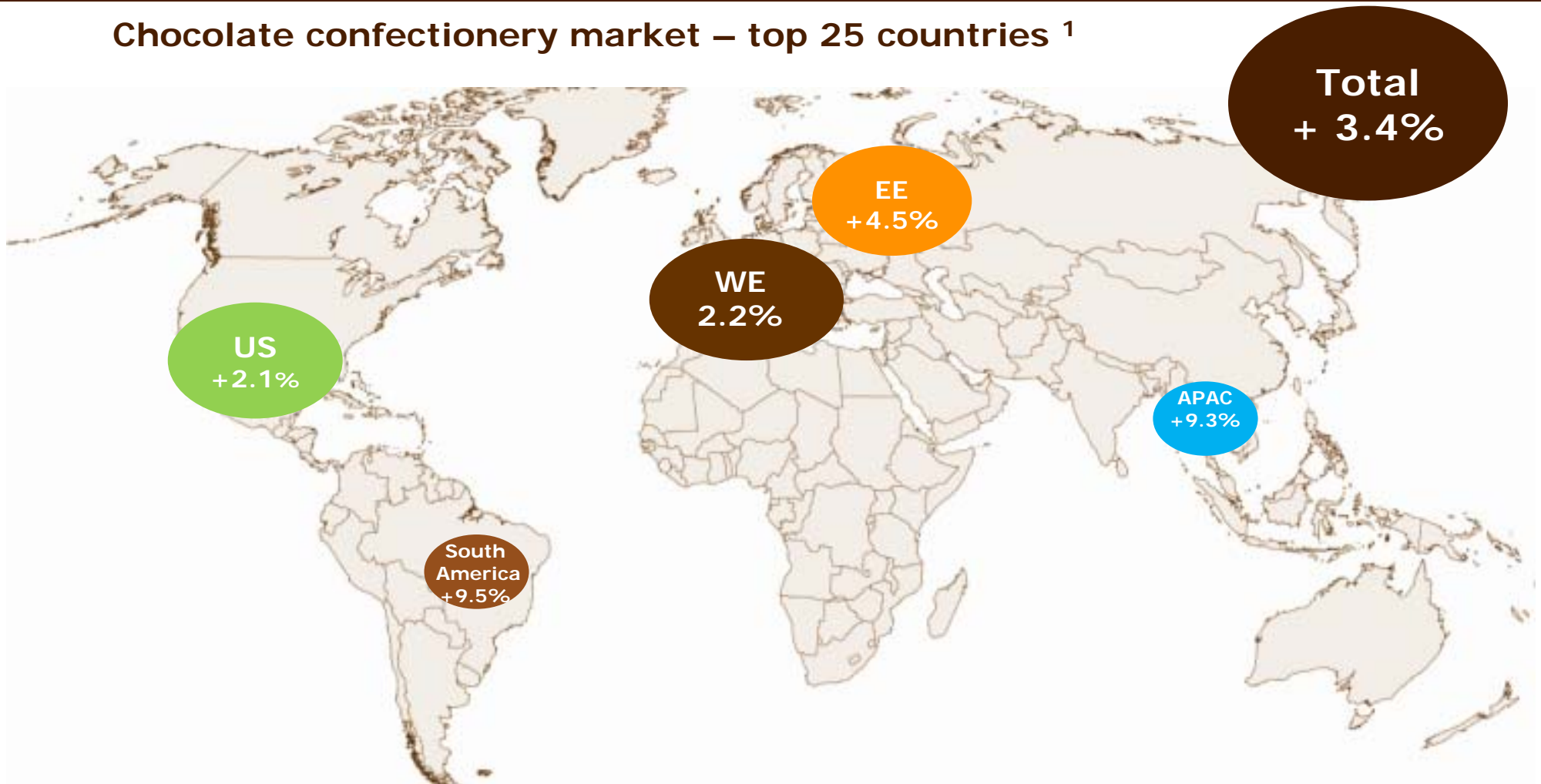




Sep - Nov 2013

# Strong volume growth in the Global chocolate market

## Chocolate confectionery market – top 25 countries <sup>1</sup>

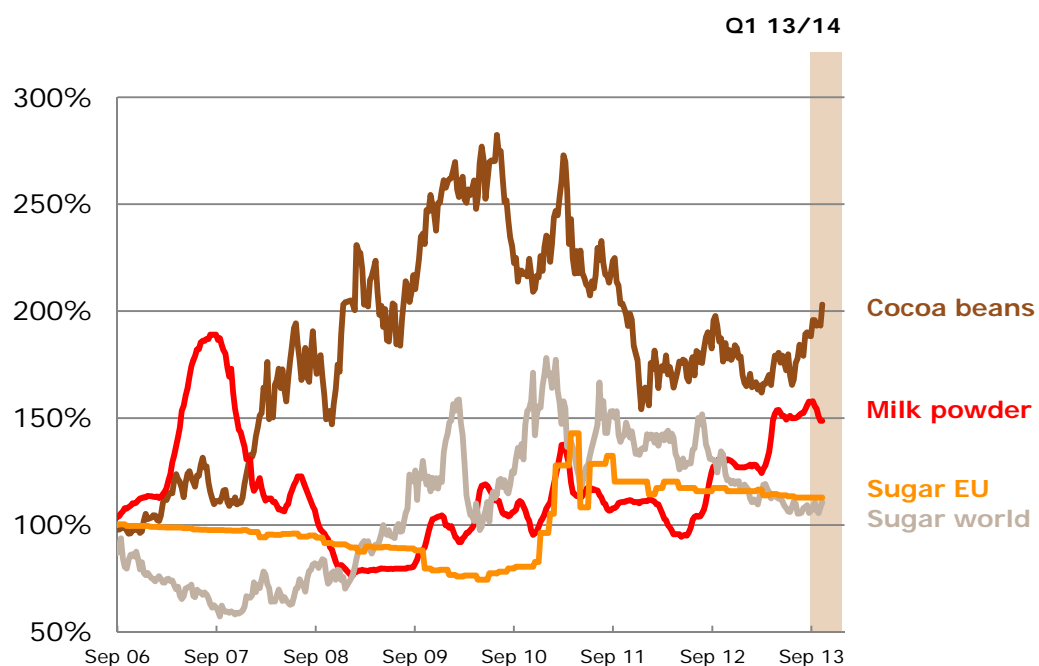


1) Source: Nielsen data (Sep –Nov 2013); - Top 25 countries of the global chocolate market in volume; - USA total volumes are estimated based on a share distribution by Euromonitor; Eastern Europe includes: Russia, Ukraine, Poland, Turkey.

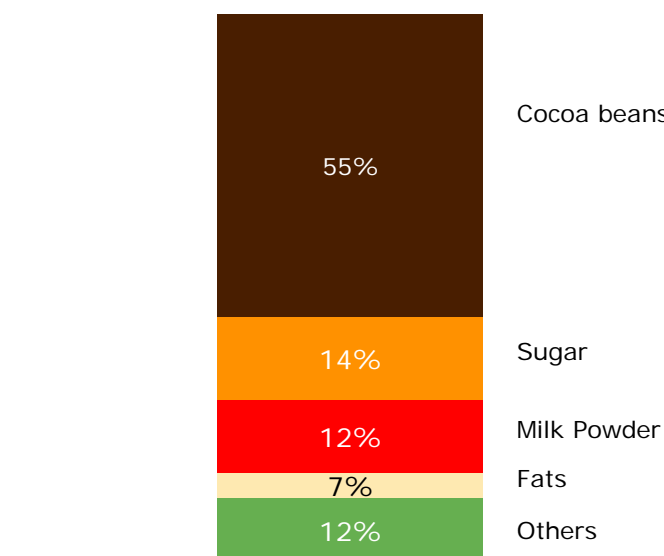


# Raw materials development

Historical evolution



% of total BC raw material costs



- Cocoa beans average prices for the first quarter months were 8% higher vs. to prior year. Main crops in Ivory Coast and Ghana are very good, estimated deficit seems to slim down.
- Milk powder prices remained at high levels, due to the general short coverage on the industry and continued regular demand
- Prices on the world sugar market continued the downward trend, overall rather a bearish market sentiment. EU stocks increased due to special measures to increase supply.

Note: All figures are indexed to Sep 2006.

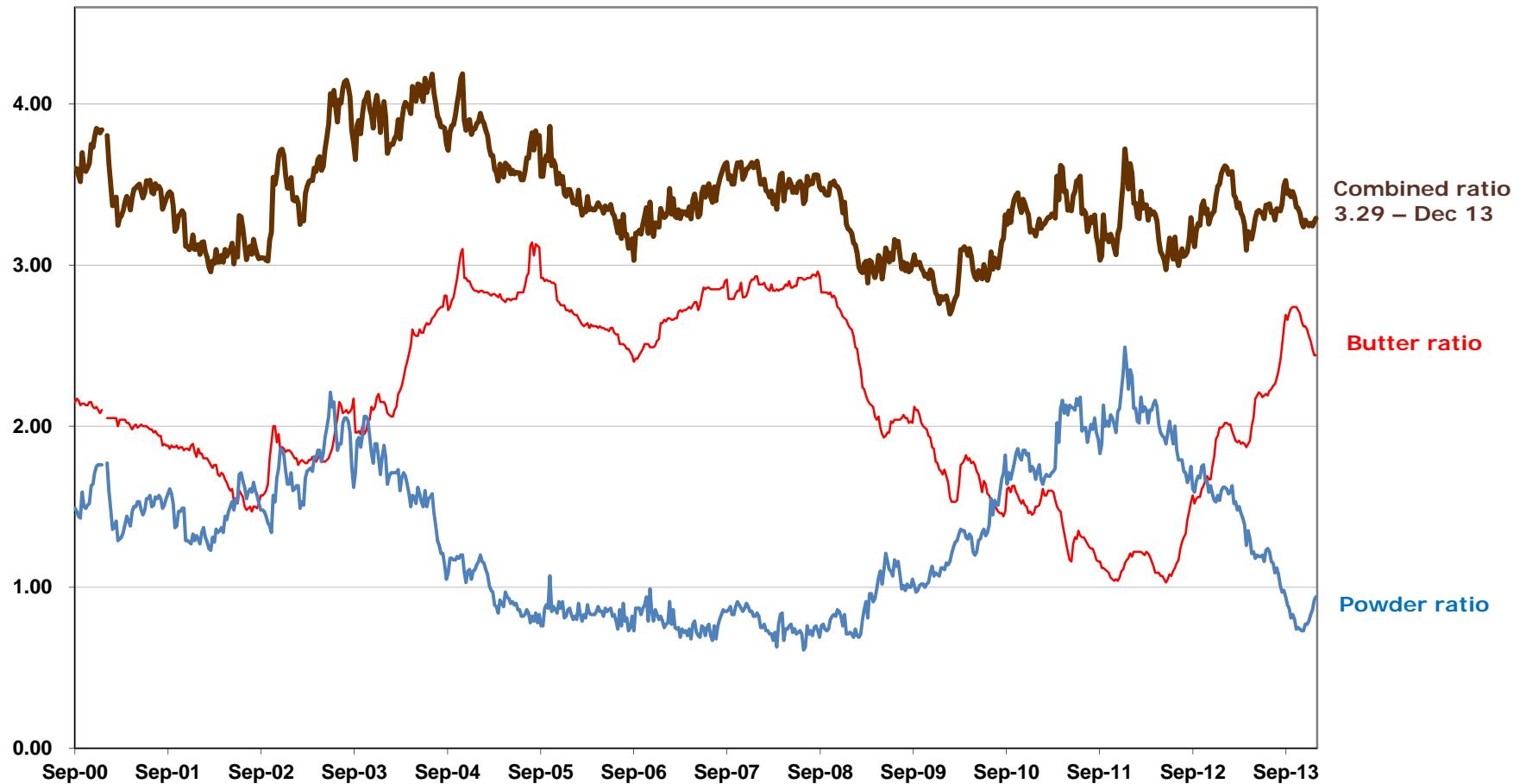
Source: Cocoa beans Ldn 2<sup>nd</sup> position; Sugar world London n°5 (2<sup>nd</sup> position), Sugar EU Kingsman estimates W-Europe DDP, skimmed milk powder average price Germany, Netherlands, France.



# Cocoa processing activity

## Slight improvement in powder ratios offset by decline of butter ratios

European combined ratio - 6 months forward ratio



▶ Low combined cocoa ratios = negative impact on BC cocoa (semi-finished products) business



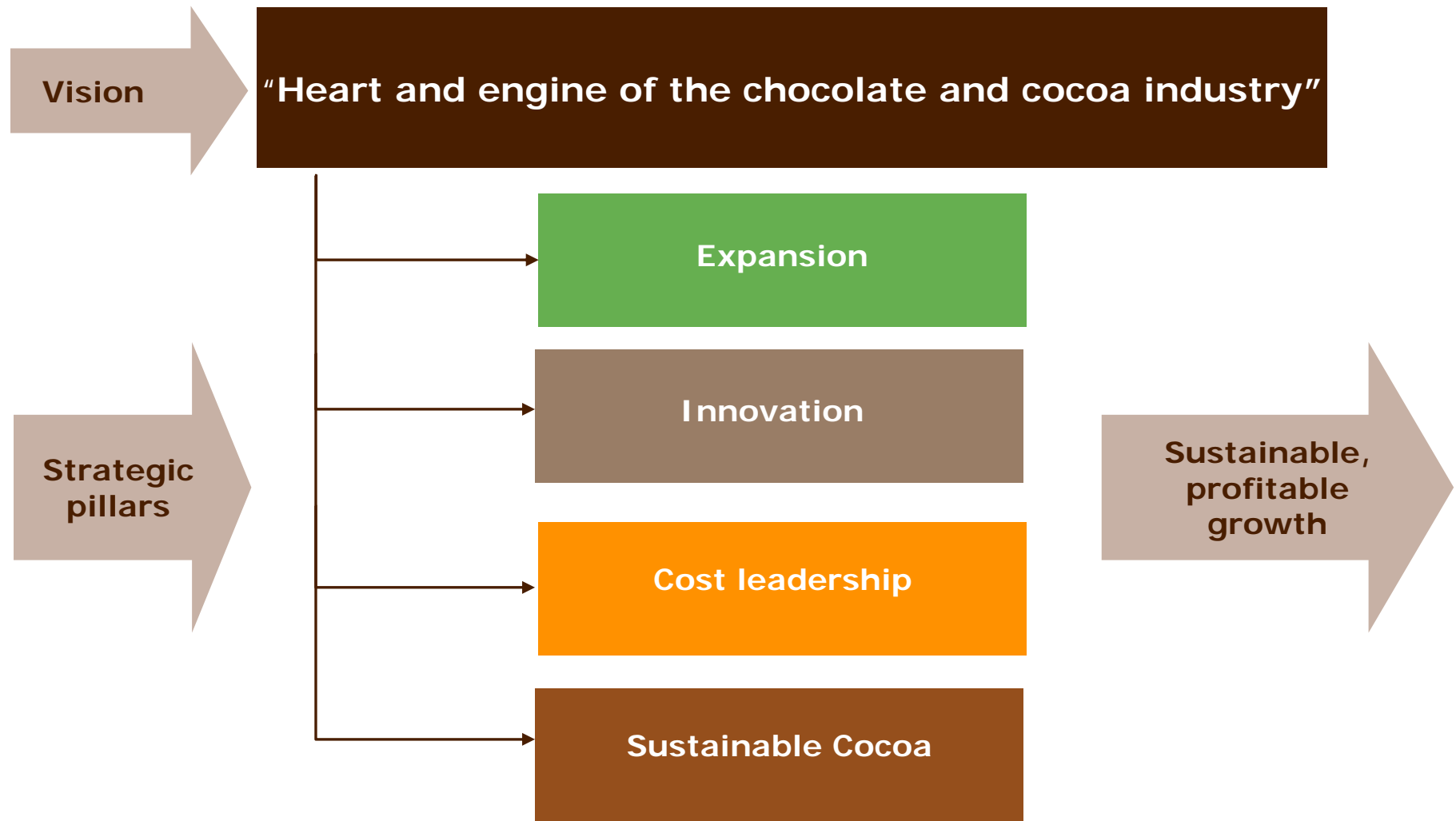
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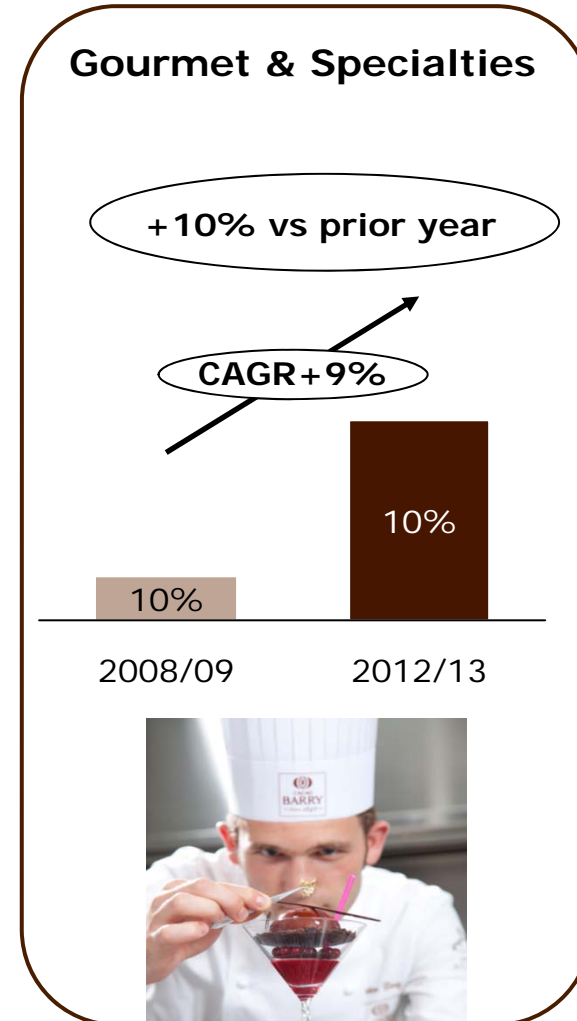
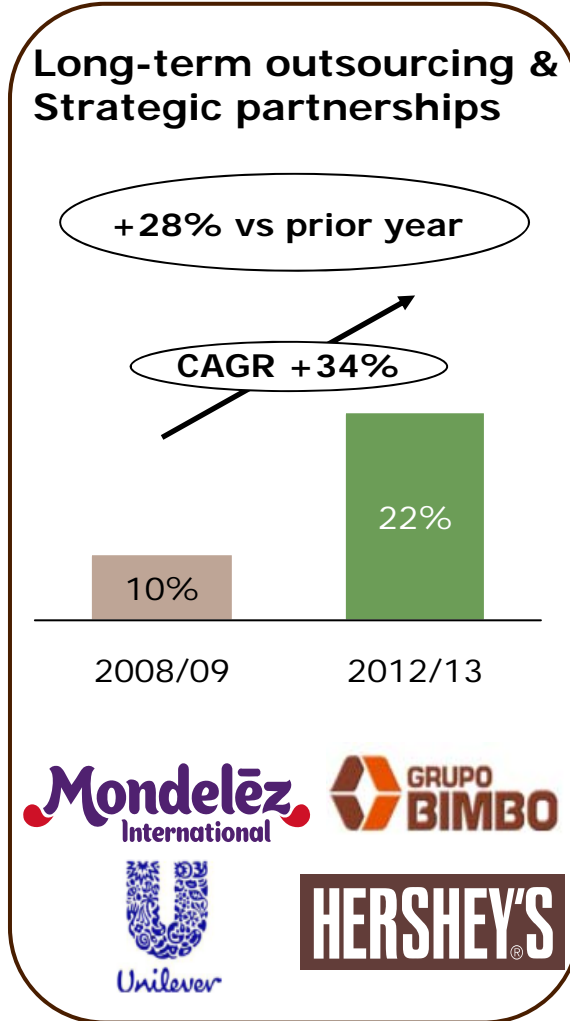
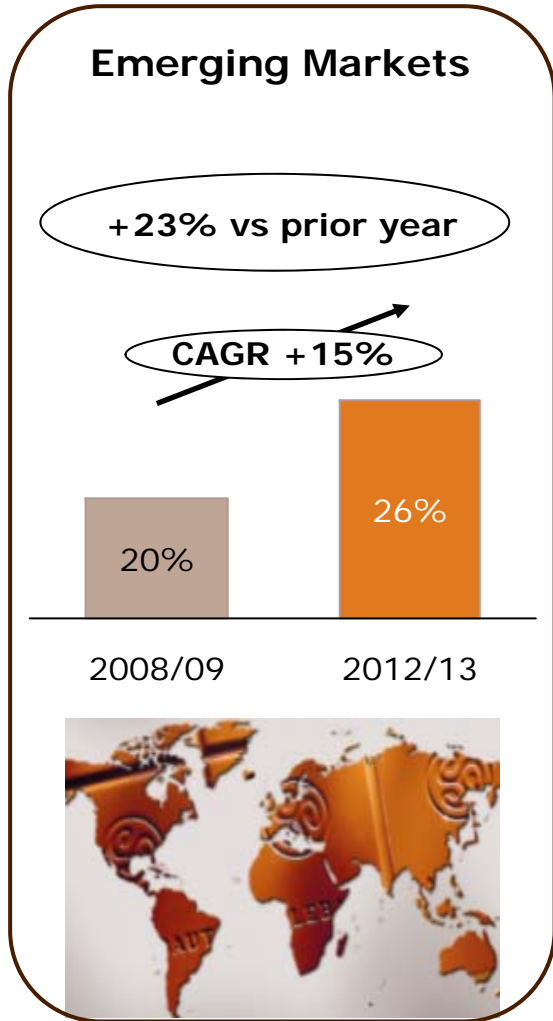
# Our strategy remains unchanged





Five-year development

Continued focus on our key expansion drivers

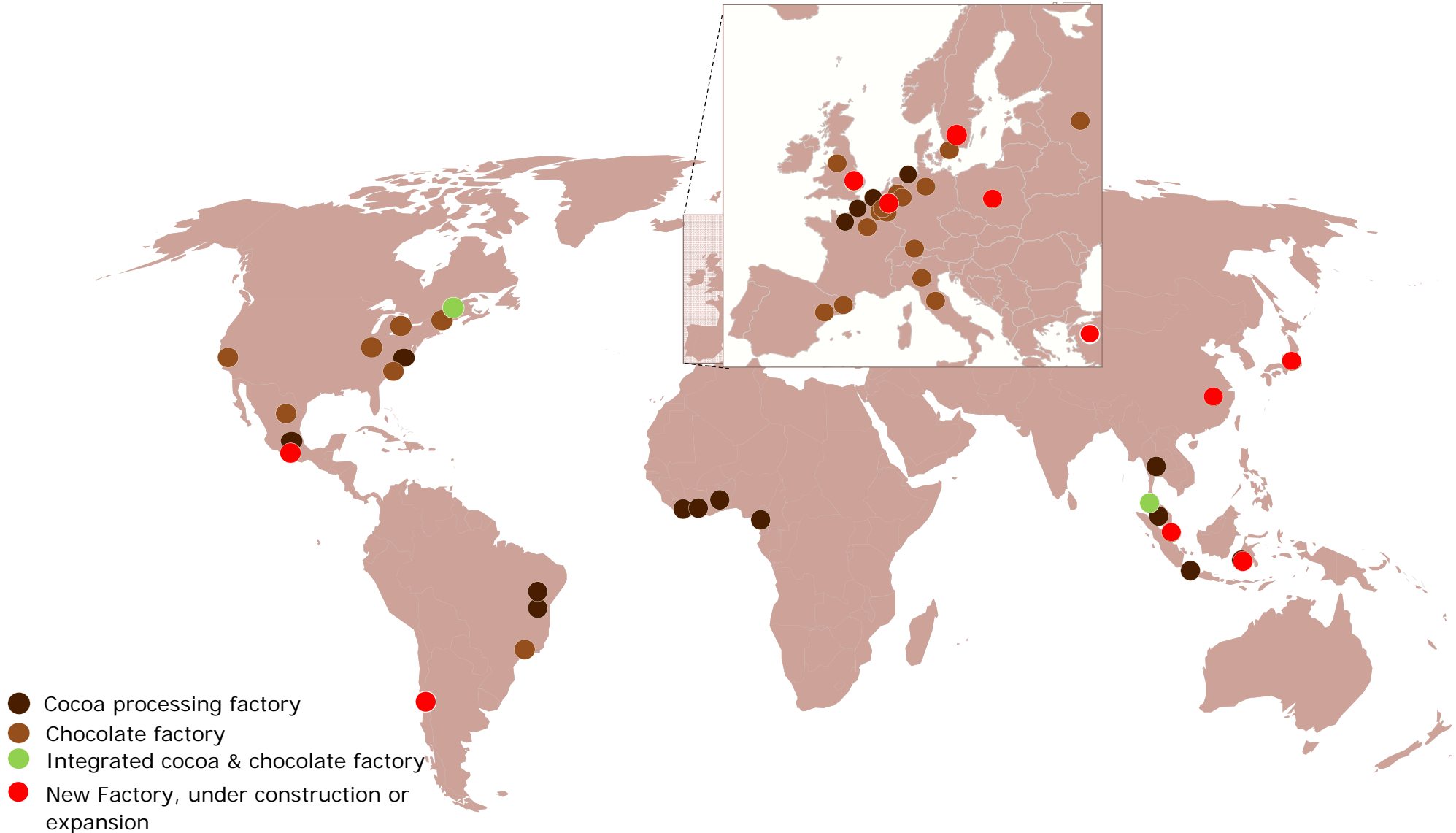


Volume growth

of total Group volume



# Significant expansion of manufacturing footprint provides diversification and unique competitive advantage





Long-term outsourcing and strategic partners, one of our key growth drivers with further potential

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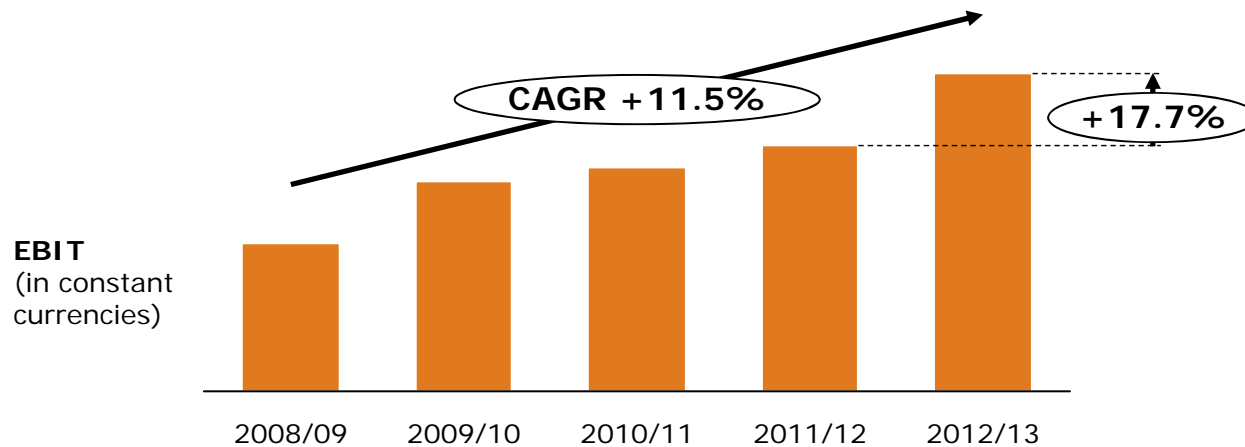
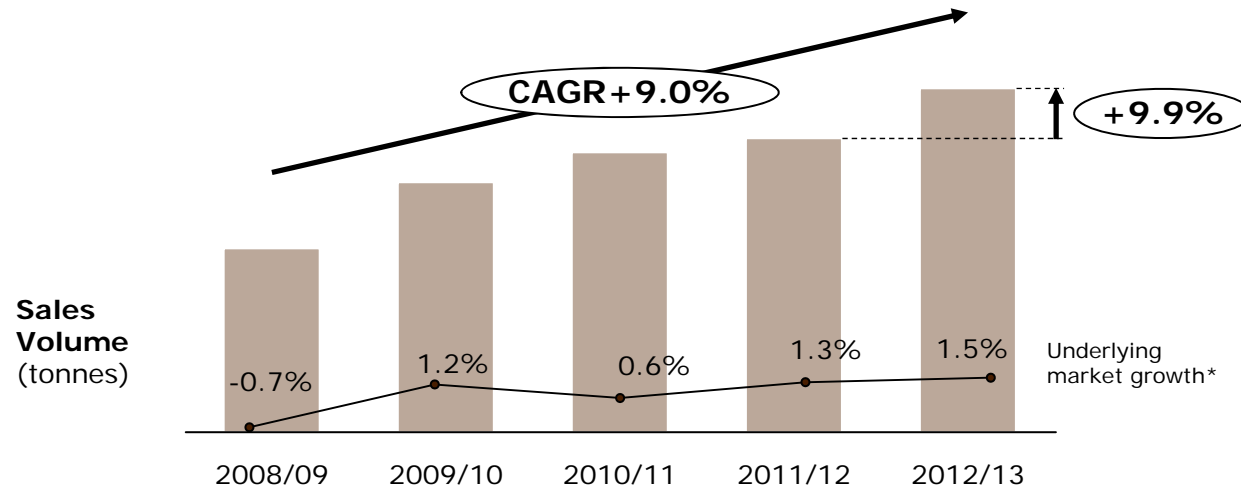






# Gourmet & Specialties: strong top and bottom-line performance

## Group Gourmet & Specialties Business – Growth evolution



\* Source: Euromonitor Foodservice



# Striving for cost leadership while growing at a high pace...

## Capacity Utilization

- **Chocolate: 95%**  
*(target 82-85%)*
- **Cocoa 92 %**  
*(target 90-95%)*



## Manufacturing costs per tonne

-2.6%<sup>1</sup>



## Higher supply chain costs due to capacity constraints



## Energy consumption

-5%  
*(5-year target -20%<sup>2</sup>)*



## Optimization of materials used



## Production capacity expansion and new factories



1) On like-for-like basis

2) Target -20% by 2013/14, accumulated -23% until 2012/13 ahead of target



“Cocoa Horizons”: Execution platform for sustainability projects



## Our sustainability initiative in numbers

### Increase sustainable cocoa supply and improve farmer livelihoods

#### Farmer Practices

##### Double yield & improve quality

- ▶ 110,000 farmers trained
- ▶ 73 participating cooperatives
- ▶ 1 Cocoa Center of Excellence
- ▶ 5 regional Showcase Farms
- ▶ 575 Farmer Field Schools

#### Farmer Education

##### Train next farmer generation

- ▶ Built 3, and extended 5 primary schools
- ▶ Child labor awareness raising with farmers and teachers, distributed school kits

#### Farmer Health

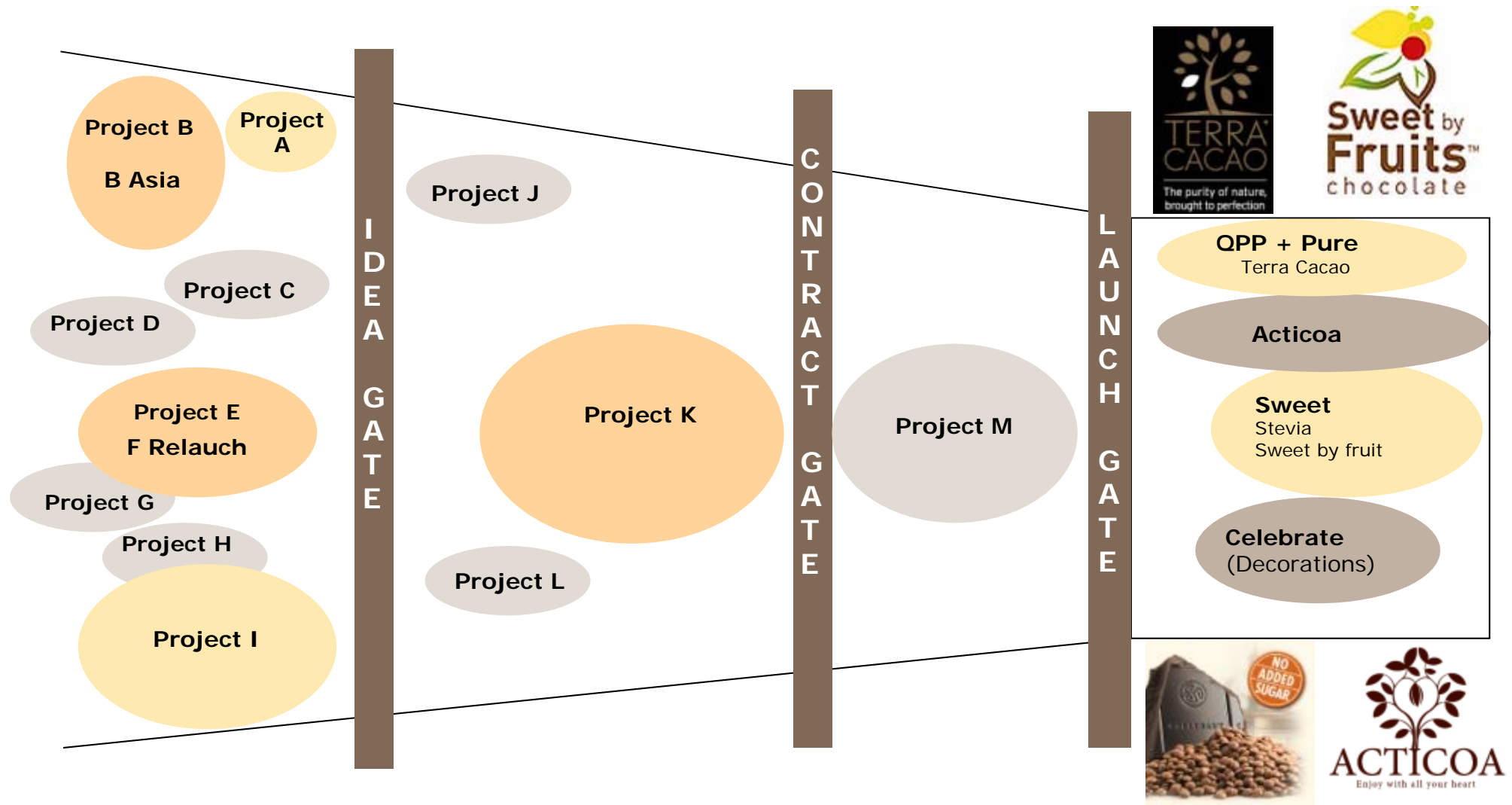
##### Clean water & basic healthcare

- ▶ Micro health insurance program launched targeting 250,000 people
- ▶ 7 boreholes and water systems built
- ▶ Distributed mosquito nets

**QPP Cooperatives + Biolands Cocoa Buying Programs**



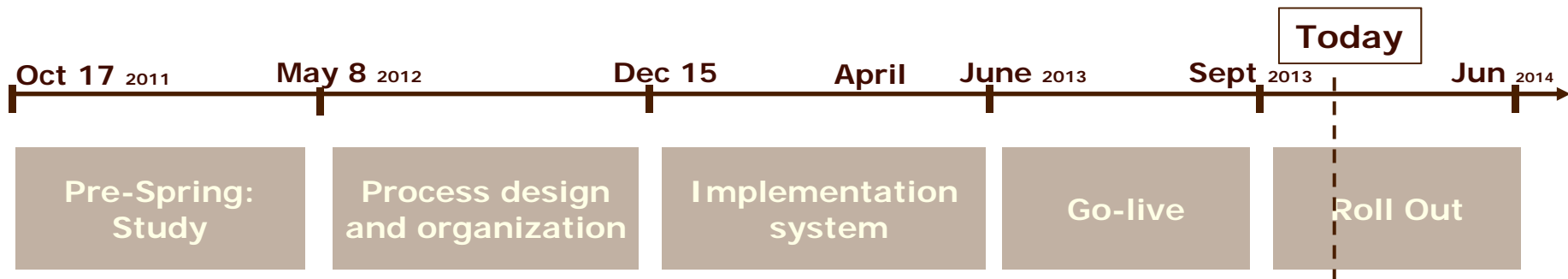
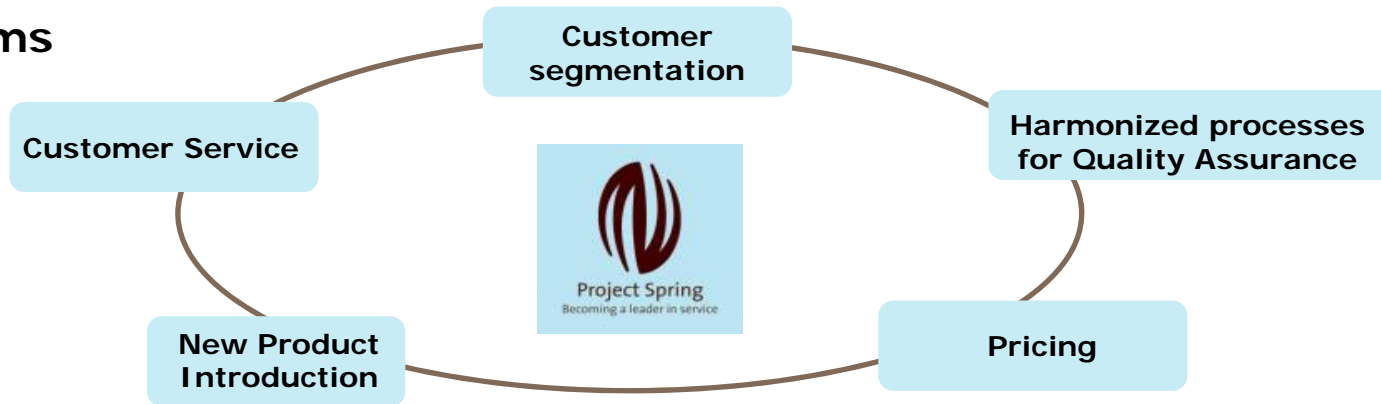
# Strong innovation funnel with focus on fewer, bolder and bigger projects





# Project «Spring»: Enhancing our leadership in service

## Workstreams

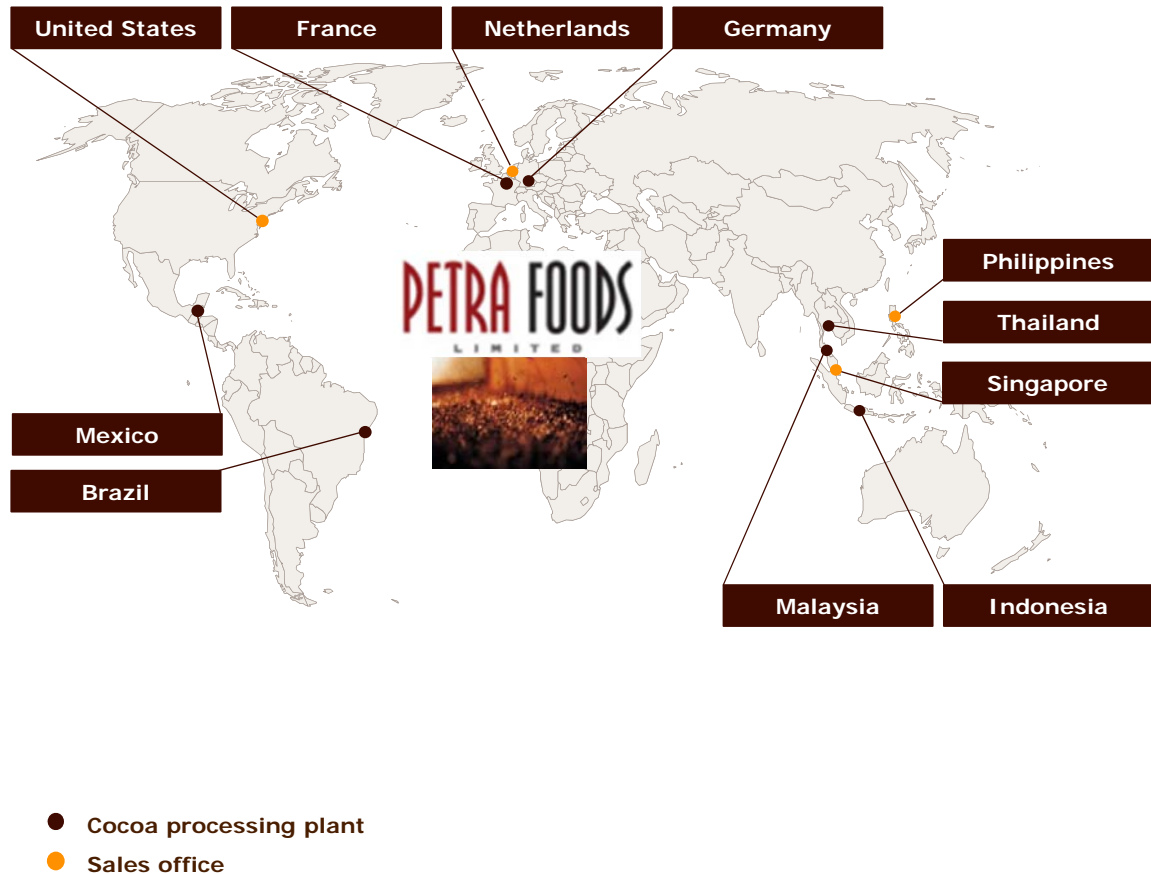


**First positive results achieved. Change management and complete roll-out key for a successful implementation**

**Investment of EUR 30 mio and annual savings of EUR 10 mio confirmed**



# Recent acquisition of Petra Foods Cocoa Ingredients division – Company overview



Source: Company information

## Global cocoa business with exposure to emerging markets

- Largest cocoa products supplier in Asia-Pacific with around 1,800 employees
- Sales volume of 255,872 tonnes, sales revenue of USD 1,029m and EBITDA of USD 23m in FY2012
- Global footprint with seven production sites, total cocoa bean-grinding capacity of 405,000 tonnes
- Manufactures, markets and distributes cocoa products under the “Delfi” brand



## Petra Foods Cocoa Ingredients division acquisition supports our core strategy

### Excellent strategic fit at the core of Barry Callebaut's cocoa and chocolate business supporting the company's overall growth

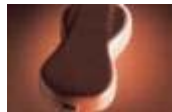
- Supporting further chocolate growth by stepping up the integrated cocoa sourcing and processing activities
- Strengthening current and future outsourcing and partnership agreements
- Boosting sales volume in fast growing emerging markets, mainly in Asia and Latin America, by 65% to almost one-third of Group sales volume
- Becoming a pro-active market player in the fast growing cocoa powder market
- Adding Asia as a strong cocoa sourcing base next to West Africa





# The acquisition increases our strength in high growth markets

## Higher demand for product categories containing powder



**Powder**

CAGR (11-16F)

2 -5 %



**Liquor**

1-2%

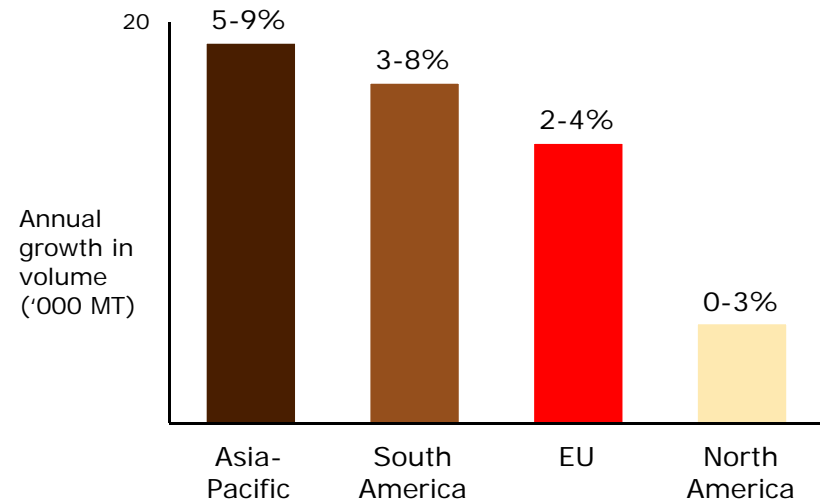


**Butter**

1-2%

## Cocoa Powder demand driven by emerging markets

### Annual growth rate



Total market size ~960,000 mt

Source: Customer interviews, Sunflower Project market size, Euromonitor.





# Numerous sources of synergies identified

## 1 Optimized Sourcing and product flows

- Reduce transportation / logistics costs through a more efficient utilisation of the combined network
- Enhanced purchasing platform

## 2 Best practices transfer

- Best practices transfers to improve profitability at Petra Foods Cocoa Ingredients Division

## 3 G&A savings – economies of scale

- Streamlining of functions and processes
- Our operating team has identified and analysed in detail numerous pockets of synergies, and we are confident that we can deliver run-rate synergies of CHF 30-35m in year 4 after closing of the transaction
- The one-off integration costs are estimated at CHF 10-15m, to be incurred equally between the first 2 years post transaction
- Additionally, we estimate one-off transaction costs of approx. CHF 15m (excluding costs relating to financing)
- The Capex related to the integration is estimated at CHF 20m over the next years



## Optimization of available capacity 5

- Utilization of complementary “pockets of excess capacity” in the Petra Foods Cocoa Ingredients division and BC facilities

## Improve cost base 4

- Access to facilities with lower cost base
- Cost efficiency improvement



# Integration of the recently acquired cocoa business from Petra Foods well on track...

## Organization in place

- ▶ Regional and global commercial and functional organization

## Commercial model

- ▶ Combined cocoa and chocolate sales forces, one face to the customer approach

## Global Supply Chain

- ▶ Global manufacturing and supply chain network integration started

## Systems

- ▶ Alignment and SAP implementation in design phase

## Synergies

- ▶ All synergies confirmed and implementation projects in place

## Culture

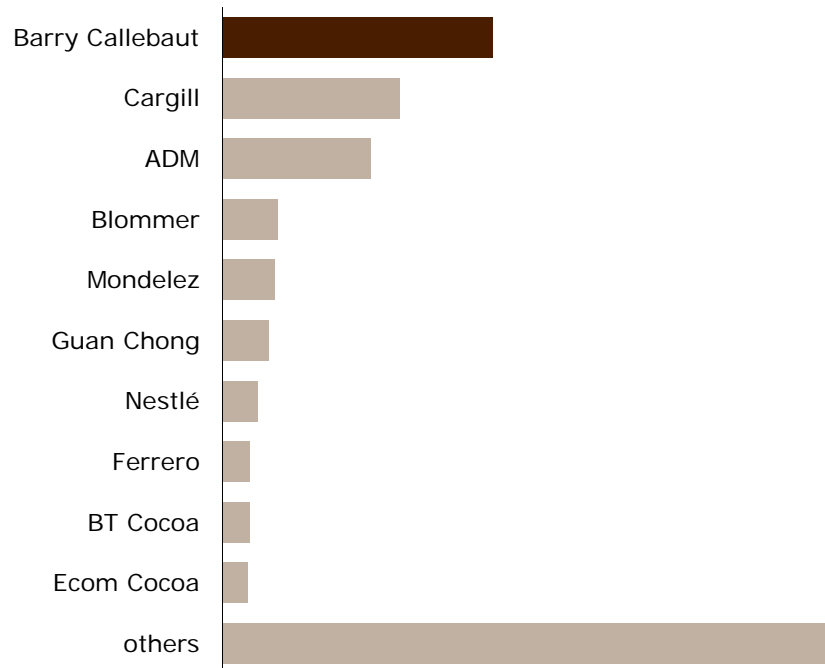
- ▶ Awareness of differences, act global stay local





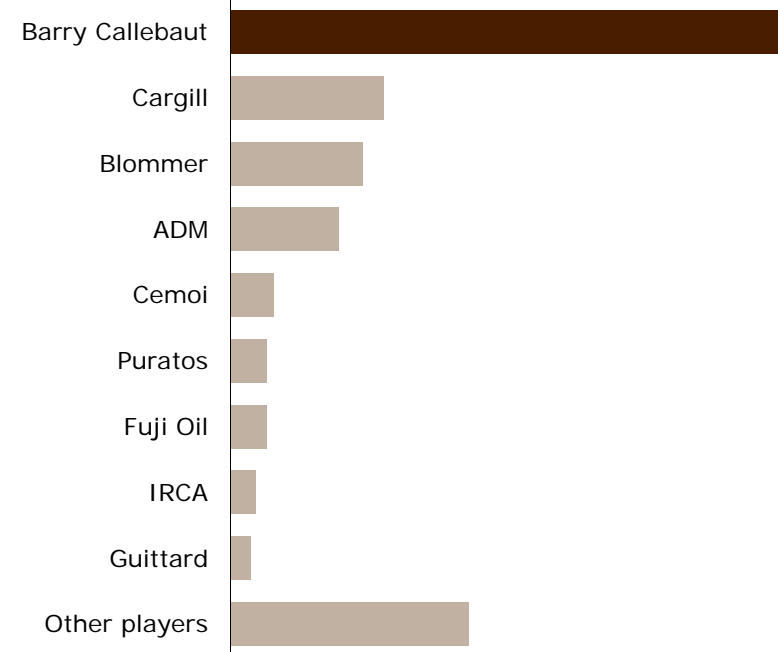
# Taking global leadership in chocolate and cocoa

### Cocoa Grinding Capacity



Volume (MT)

### Industrial chocolate – Open market



Sales Volume (MT)

Source: Third-Party Study – 2013, Company estimates



# Our ambition: preferred, proactive cocoa powder supplier

## Move from

- ▶ Tactical player
- ▶ Strong sourcing base in West Africa
- ▶ Limited presence in emerging markets
- ▶ Limited product offering

## Move to

- ▶ Proactive seller of cocoa products
- ▶ More globally balanced sourcing from origin countries, including Asia and South America
- ▶ Greatly expanded presence in emerging markets – Asia and Latin America
- ▶ Comprehensive product offering

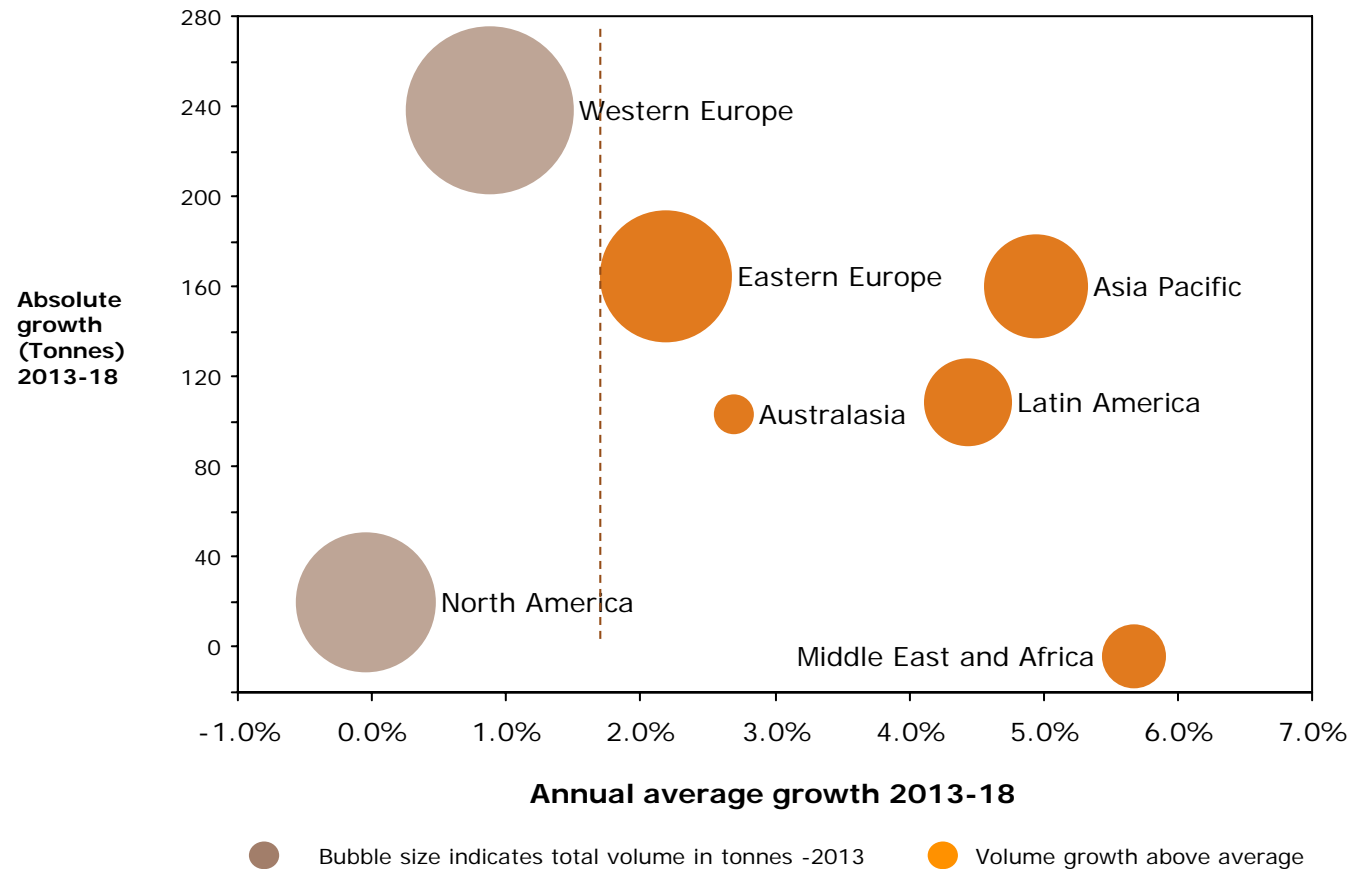




Further expansion of our business

# Demand outlook in chocolate remains strong

## Chocolate Confectionery – Volume in tonnes <sup>1</sup>



1) Source: Euromonitor 2013

2) Customer interviews, Sunflower project market size, Euromonitor



## Strategy

# Our key focus areas for 2013/14

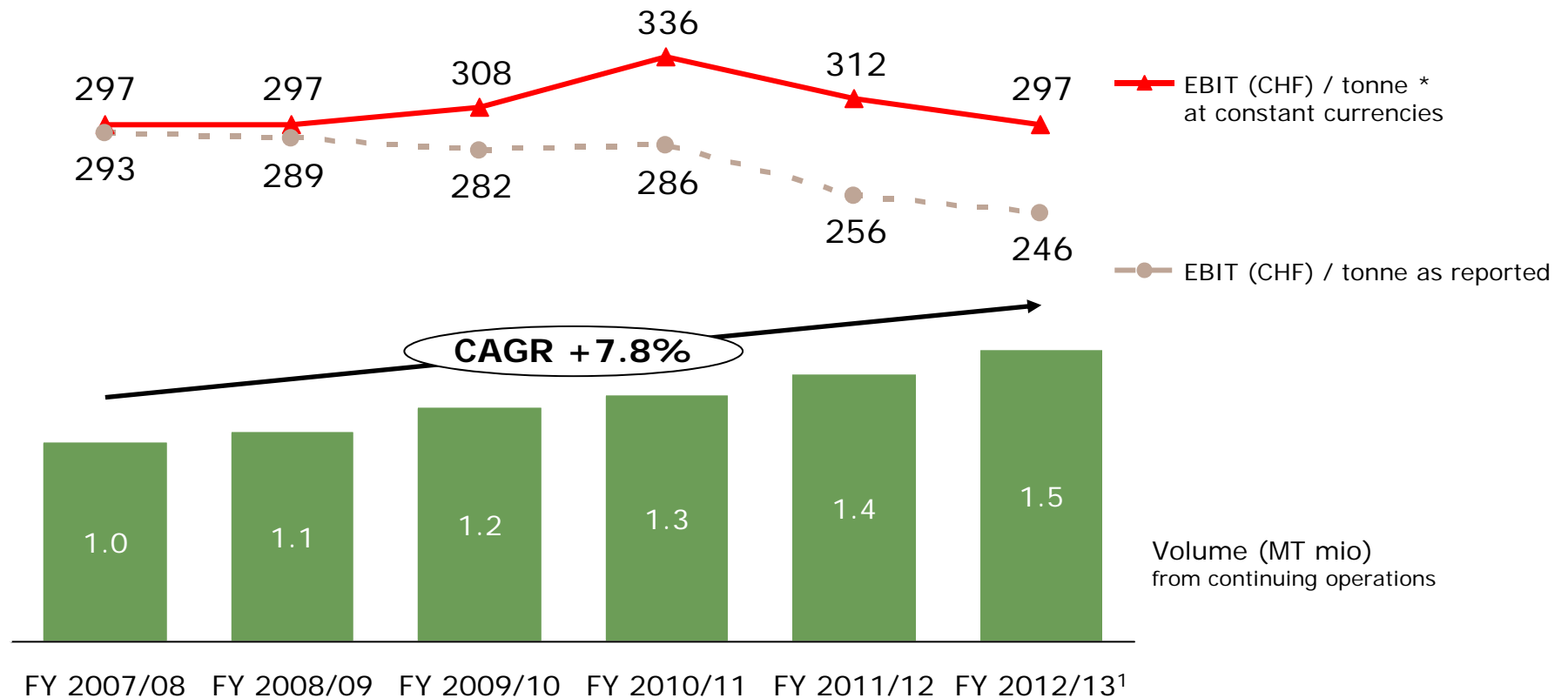
- ▶ Integrate Petra Foods cocoa business and strengthen our position in cocoa powder
- ▶ Enhance profitability
  - ▶ Continue product margin improvement
  - ▶ Keep supply chain and fixed costs under control
- ▶ Full implementation of Project Spring
- ▶ Accelerate talent management programs and succession planning
- ▶ Strengthen leadership in sustainable cocoa





# Strong volume growth over the last 6 years and EBIT per tonne maintained, excluding negative FX impact

## Group development



- Excluding negative FX impact (at constant currencies 2007/08) and excluding Consumer business
- 1) BC Stand-alone excluding recently acquisition of cocoa business from Petra Foods



# Our outlook for the next year and mid-term guidance

### **Market / Industry**

- ▶ Long-term growth remains intact: around 2% volume growth
- ▶ Sensitive economic environment in Southern European markets
- ▶ Slower growth in some emerging markets, including FX risks
- ▶ Improvement of combined cocoa ratio

### **Guidance**

- ▶ Volume growth: 6-8% on average per year until 2015/16
- ▶ EBIT/tonne restored to Barry Callebaut's pre-acquisition level by 2015/16\*

\* As of consolidation of the cocoa business acquired from Petra Foods: EBIT per tonne CHF 256 – barring any major unforeseen events





# Appendix



## Strong top-line growth, gaining profitability momentum

Group performance	FY 2012/13	% vs prior year (in CHF)
Sales Volume Total	1'535'662	+11.4%
Sales Volume stand-alone	1'498'632	+8.7%
EBIT Total	339.6	-3.9%
EBIT stand-alone <i>EBIT per tonne</i>	368.8 246.1	+4.4% -3.9%
Net profit from continuing operations	229.3	-4.9%
Net profit for the year	222.6	+56.1%

Stand-alone: Excluding recent acquisition of Cocoa business of Petra Foods (2 months consolidated volume and operating result, one-off transaction costs)



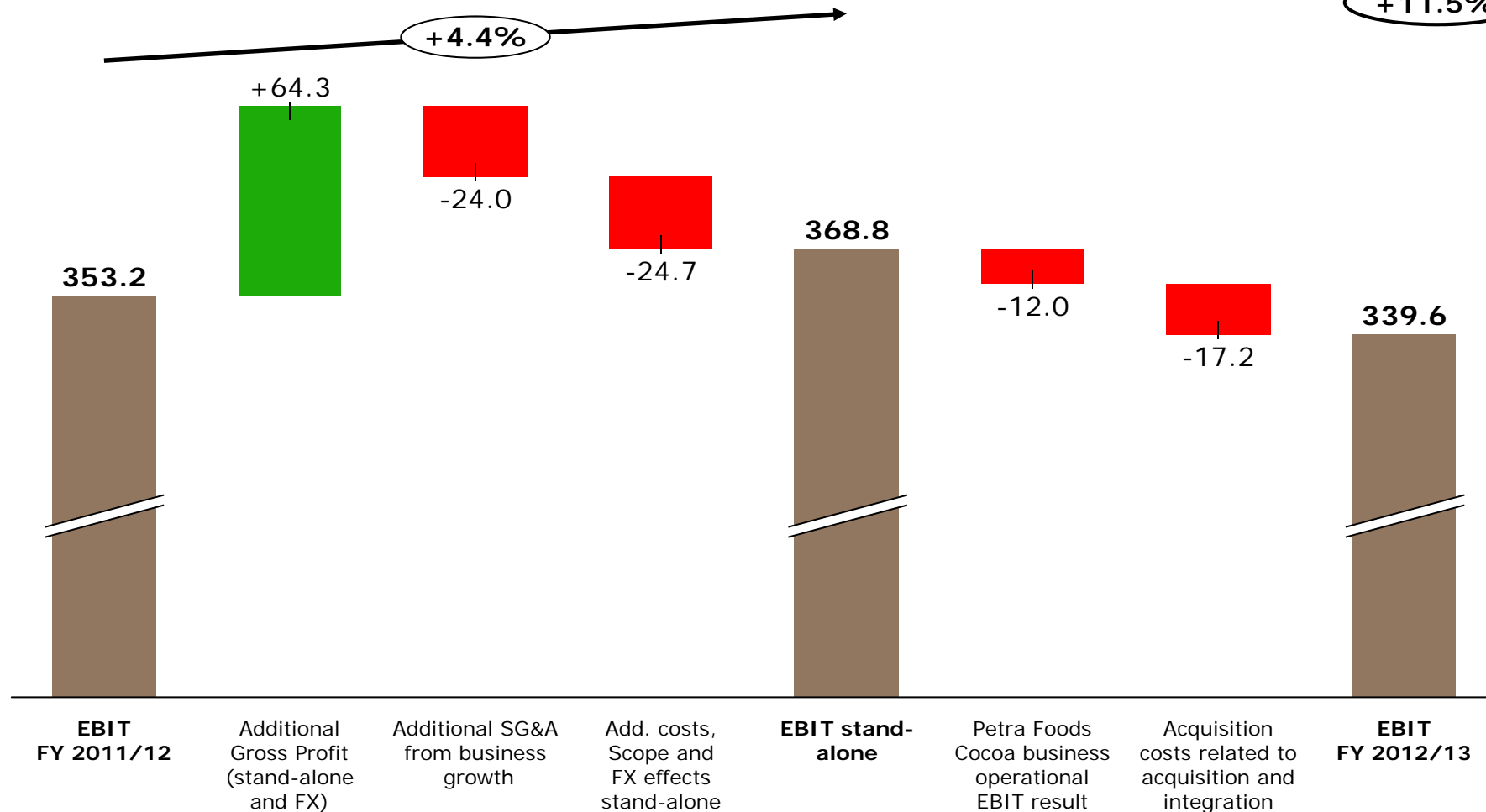
# EBIT bridge

## Stand-alone operating result gained momentum +4.4%

in CHF m

\* Without Cocoa Processing impact

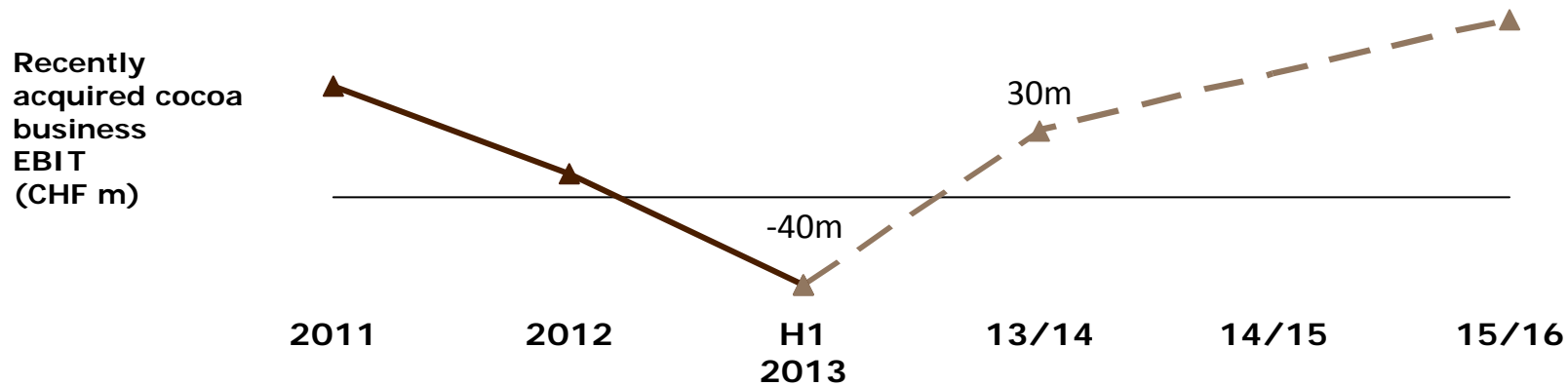
+11.5%





# Foreseen profitability improvement of the recently acquired cocoa business of Petra Foods

- ▶ Good visibility of current portfolio
- ▶ Recent improvement of combined ratio will positively impact 2014
- ▶ Synergies confirmed
  - ▶ Integration of sourcing operations started
  - ▶ European business improvement initiated
  - ▶ Optimization of supply chain identified and in progress

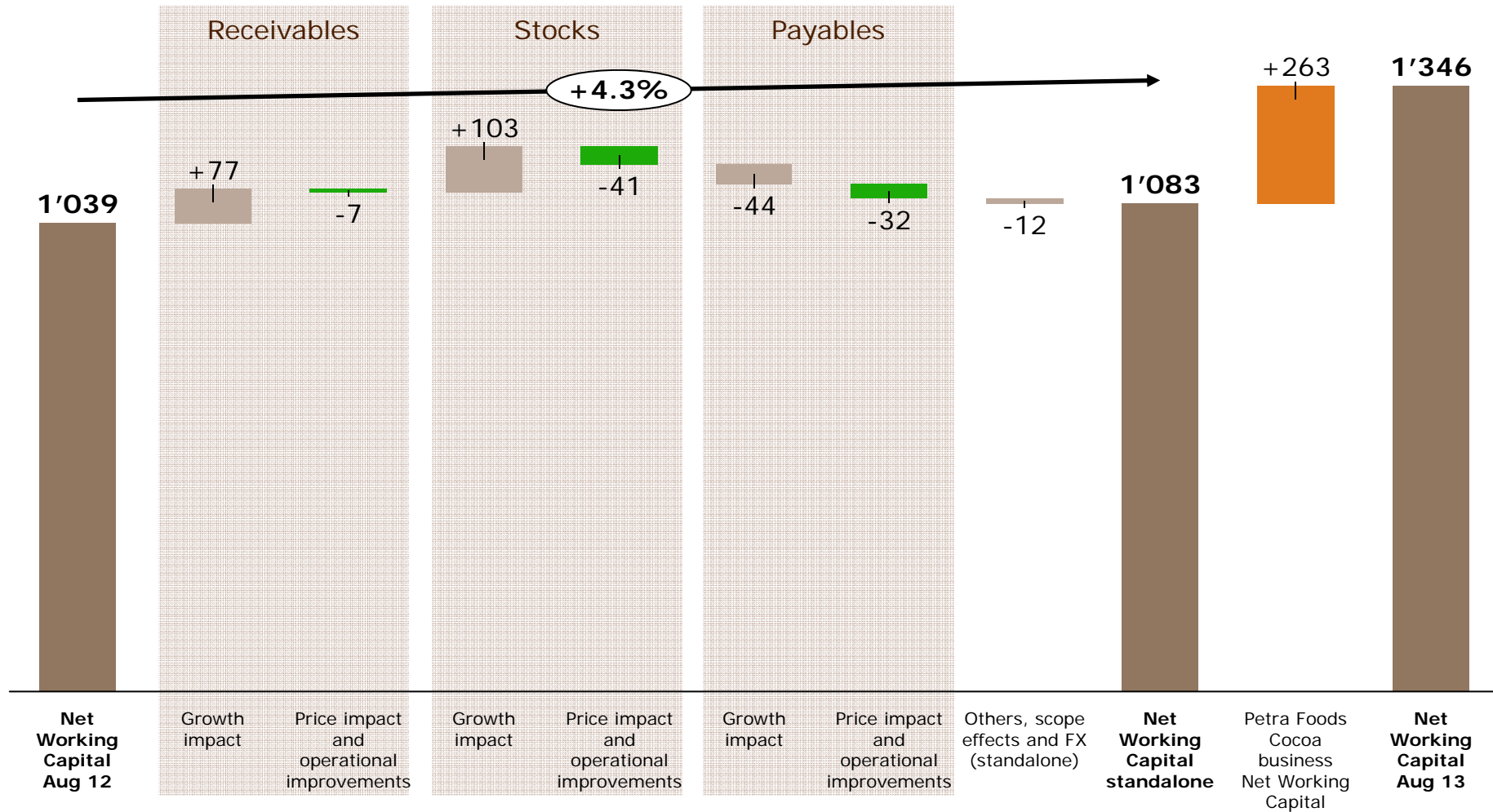




# Net Working Capital evolution

## Continued good working capital management

in mCHF





## Balance Sheet & key ratios

# Stand-alone most ratios improved, total impacted by recent acquisition

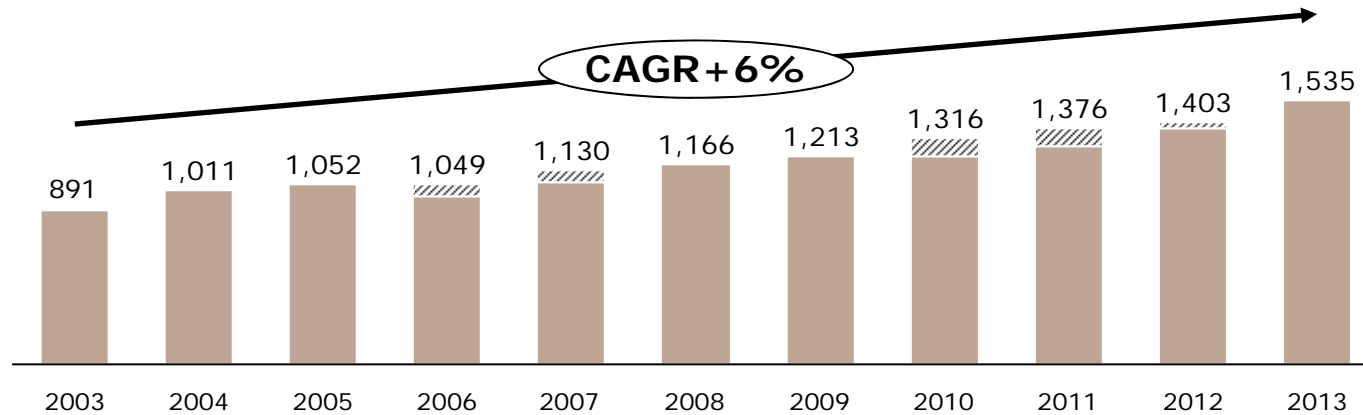
	BC stand-alone Aug 2013	Aug 13	Aug 12
Total Assets [CHF m]		4'527.1	3'576.6
Net Working Capital [CHF m]	1'083.4	1'345.7	1'039.2
Non-Current Assets [CHF m]		2'072.1	1'424.8
Net Debt [CHF m]	993.1	1'525.2	942.9
Shareholders' Equity [CHF m]		1'762.3	1'357.1
Debt/Equity ratio	65.4%	86.5%	69.5%
Solvency ratio	42.2%	38.9%	37.9%
Net debt / EBITDA	2.2x	3.5x	2.2x
Interest cover ratio		5.8x	5.8x
ROIC	13.3%	10.5%	14.2%
ROE	17.8%	14.7%	18.7%



# Based on our strategy we achieved significant growth top and bottom-line...

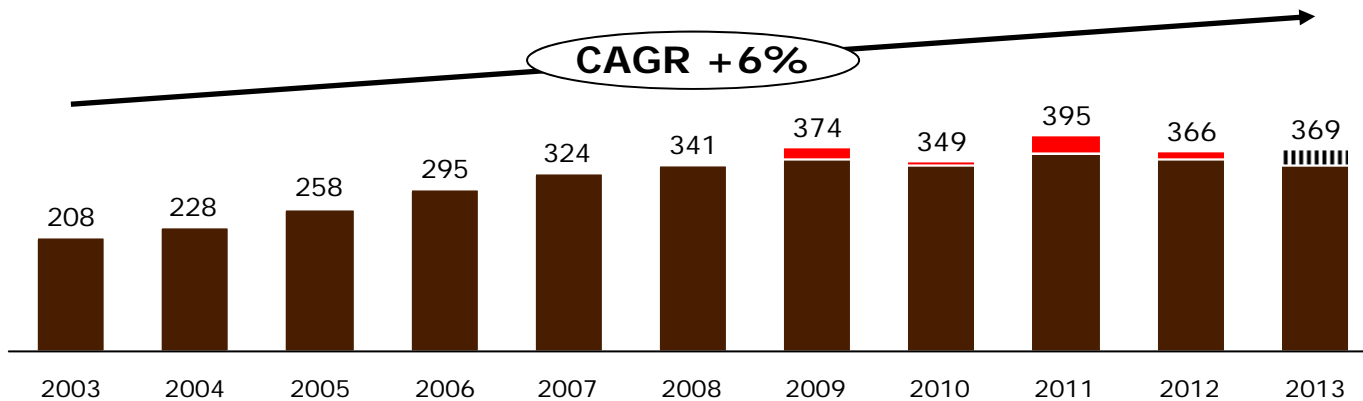
Sales Volume (in Tons)

/// Divestiture of the consumer business



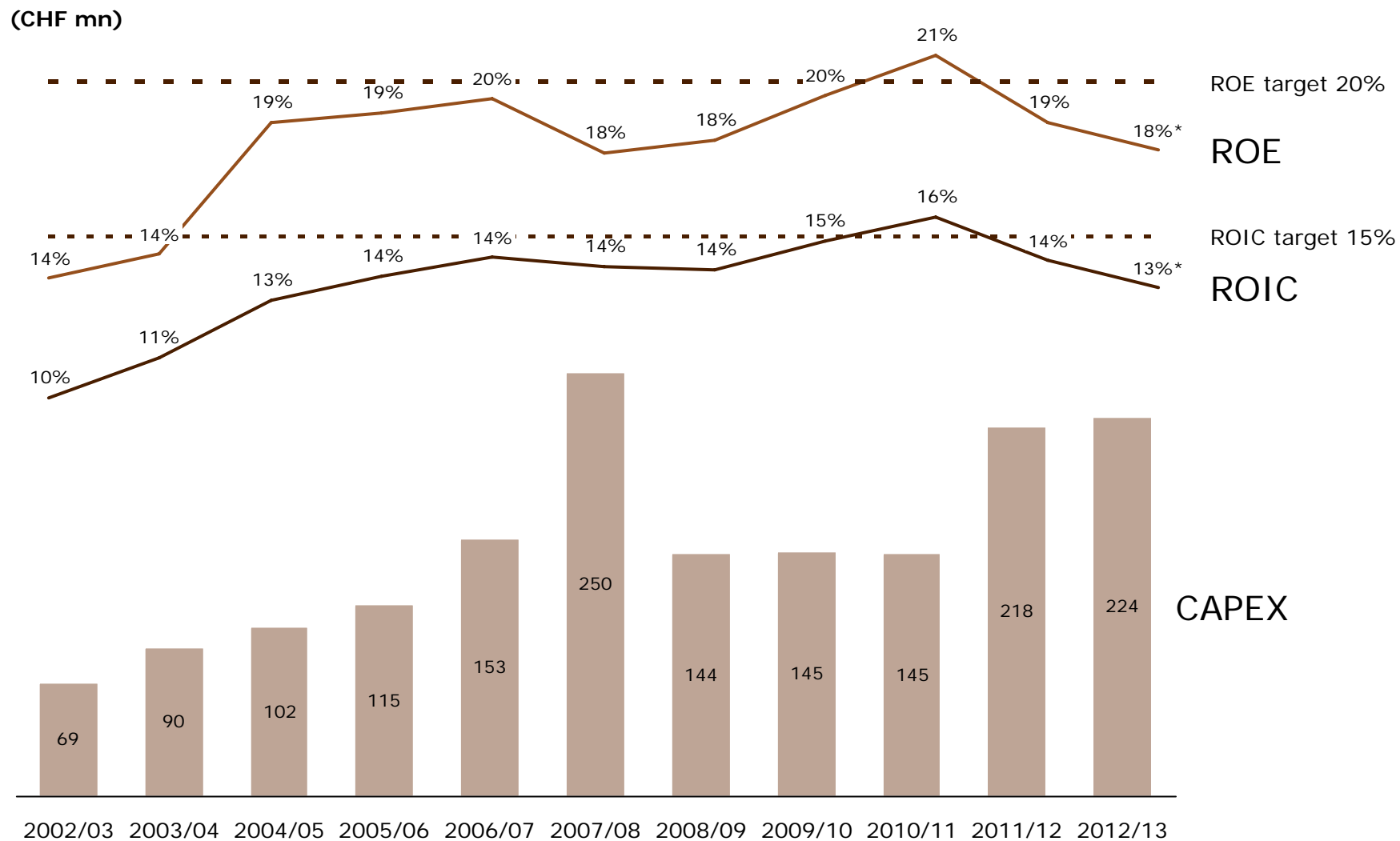
EBIT (CHF) – from continuing operations

■ FX Effect  
▨ Petra Foods Cocoa Effect





# ...while still focusing on high returns



\* Stand-alone ratios





# Dividend

## Payout ratio increased to 35%, total payout maintained

### Proposed dividend

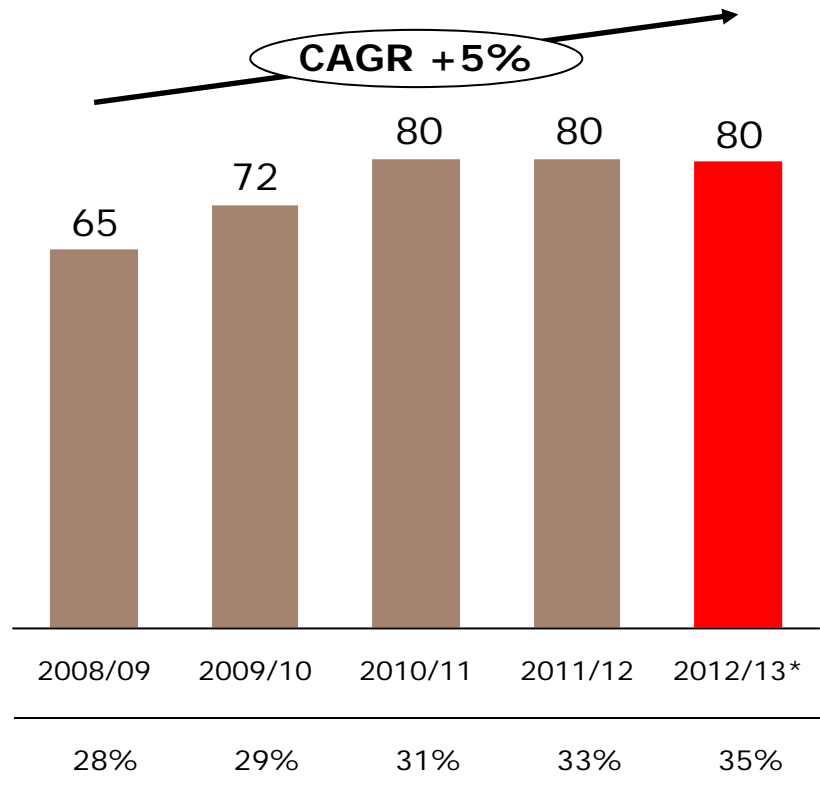
- ▶ CHF 14.50 per share<sup>1</sup>
- ▶ Payout of 35 % of Net Profit
- ▶ Not subject to withholding tax<sup>2</sup>

### Timetable for dividend

- ▶ Shareholder approval: Dec 11, 2013 (AGM)
- ▶ Expected ex-date: Feb 26, 2014
- ▶ Expected payment date: March 3, 2014

### Total payout to shareholders

in CHF m



\* As proposed by the Board to our Shareholders

1) From reserves from capital contributions

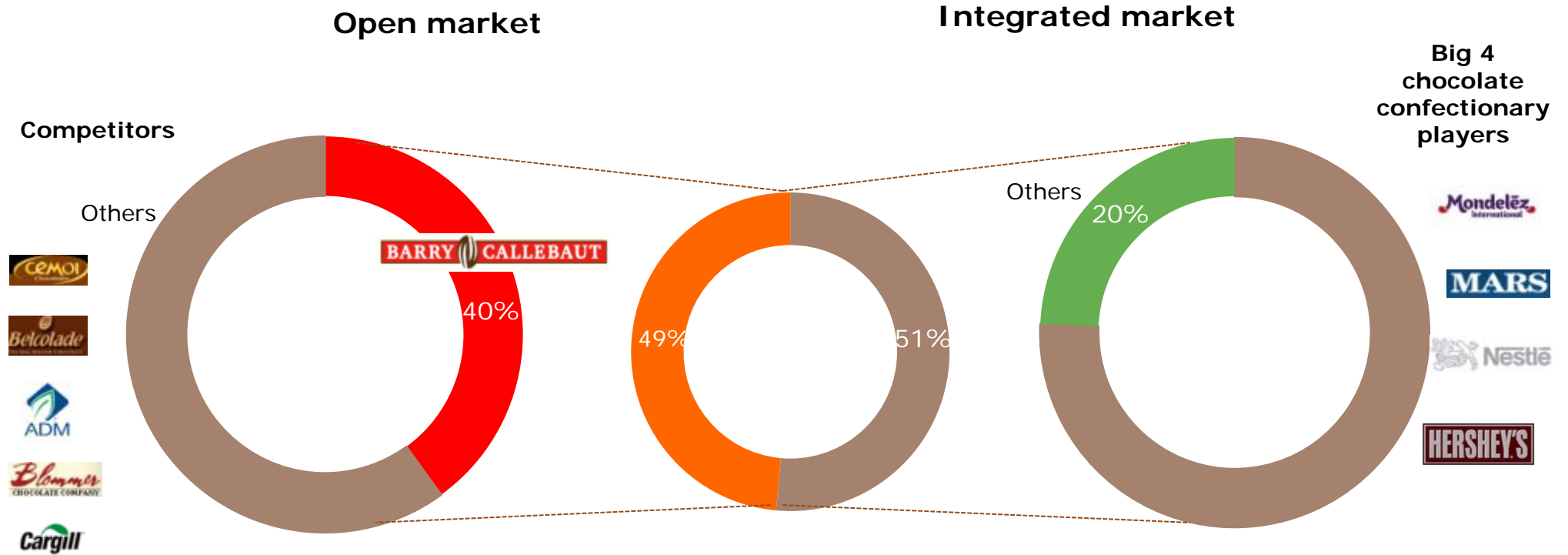
2) For individuals who are taxed in Switzerland and hold the shares privately also no income tax



Expansion

3 mio tonnes of outsourcing potential for future growth

Global Industrial Chocolate market in 2012/13= 6,250,000 tonnes\*

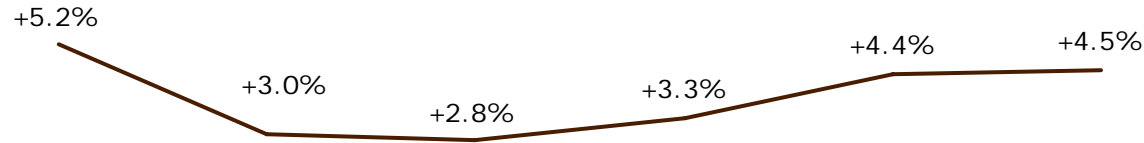


\* Company estimates



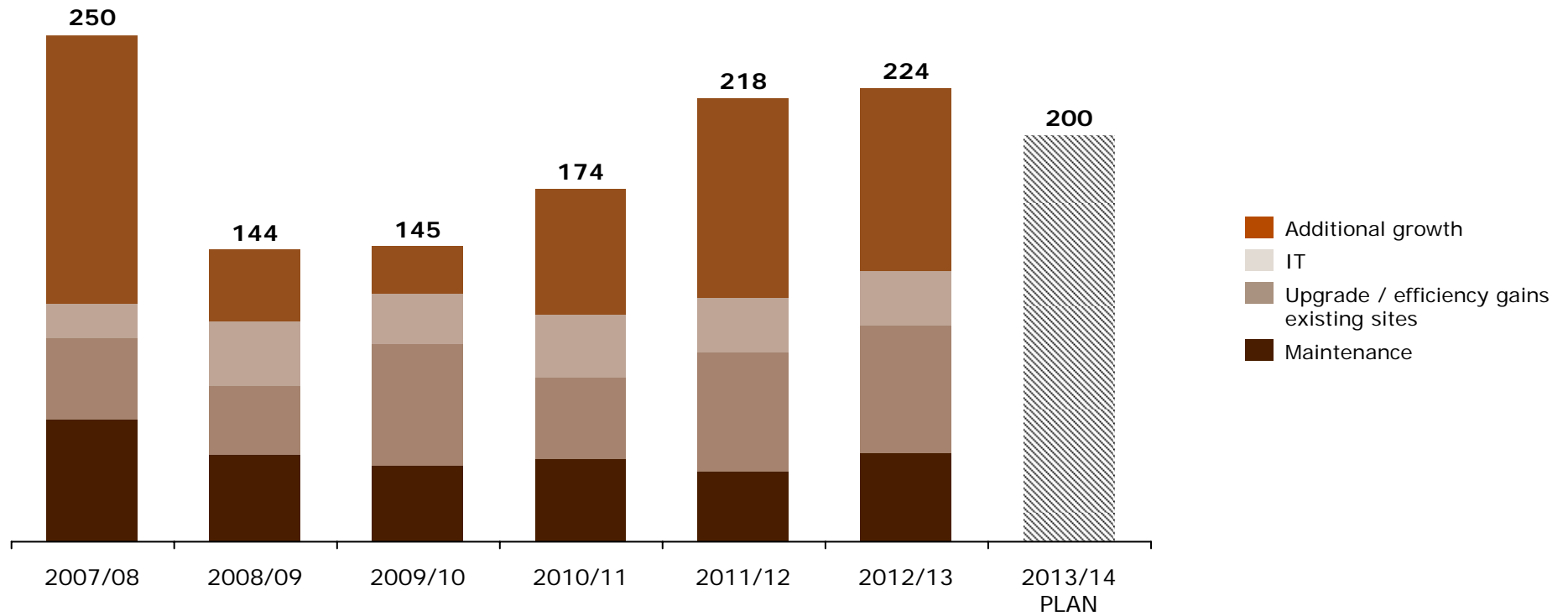
# Capex investments support the growth of our business

in CHFm



CAPEX as % of sales revenue

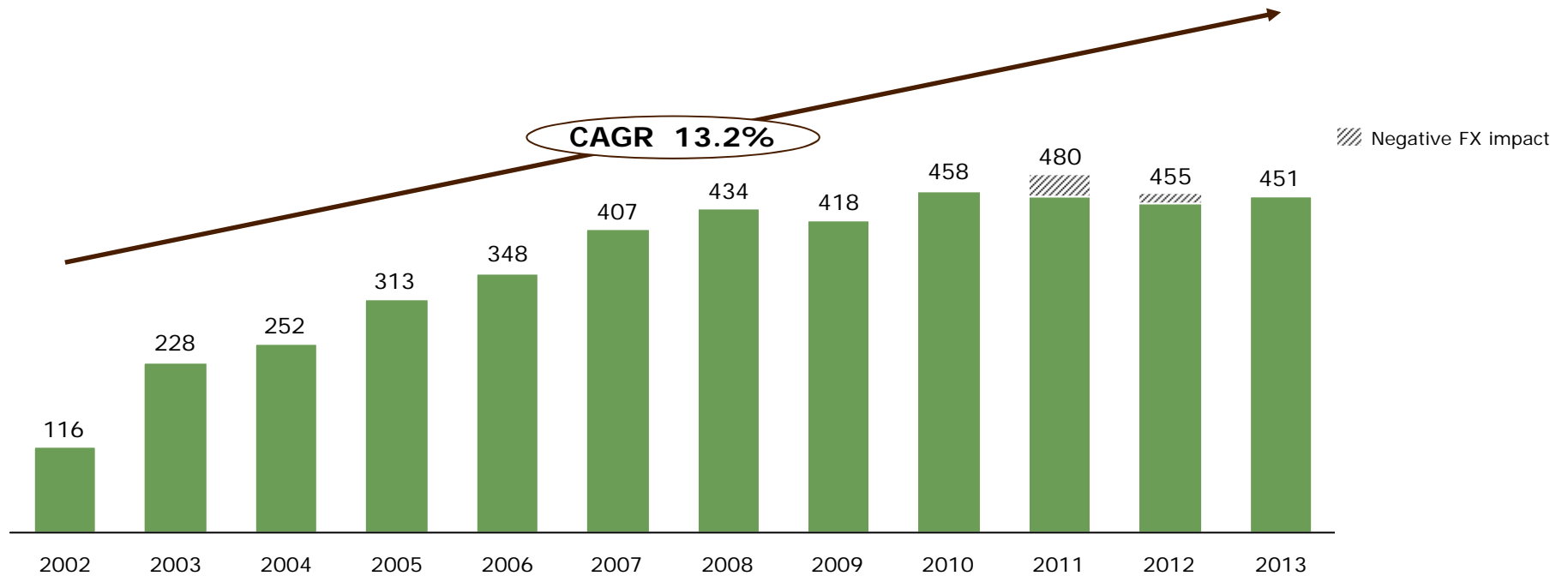
Average = 4.0%





# Cash flow evolution

## Strong operating cashflow despite fast volume growth and expansion

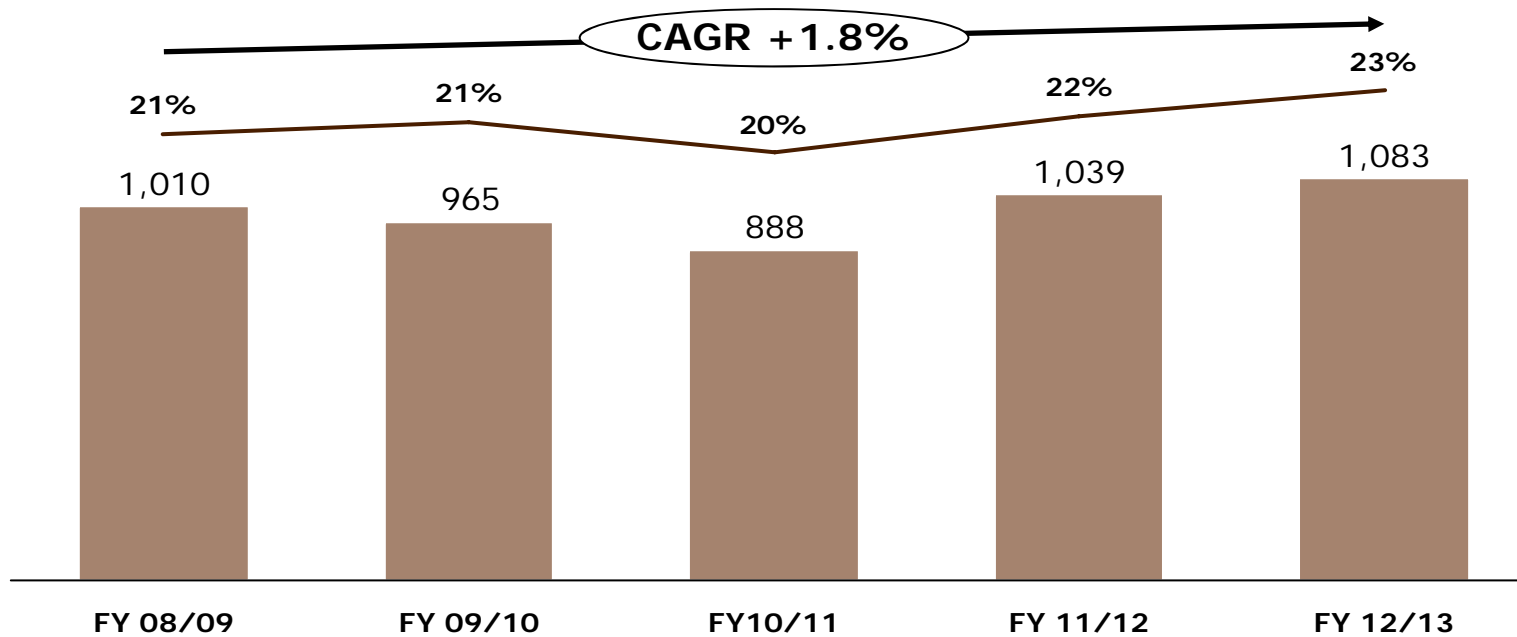


\* Operating Cash Flow before working capital changes



## Working capital rather flat, despite a sales volume growth of 6% over the last 5 years

in CHFm



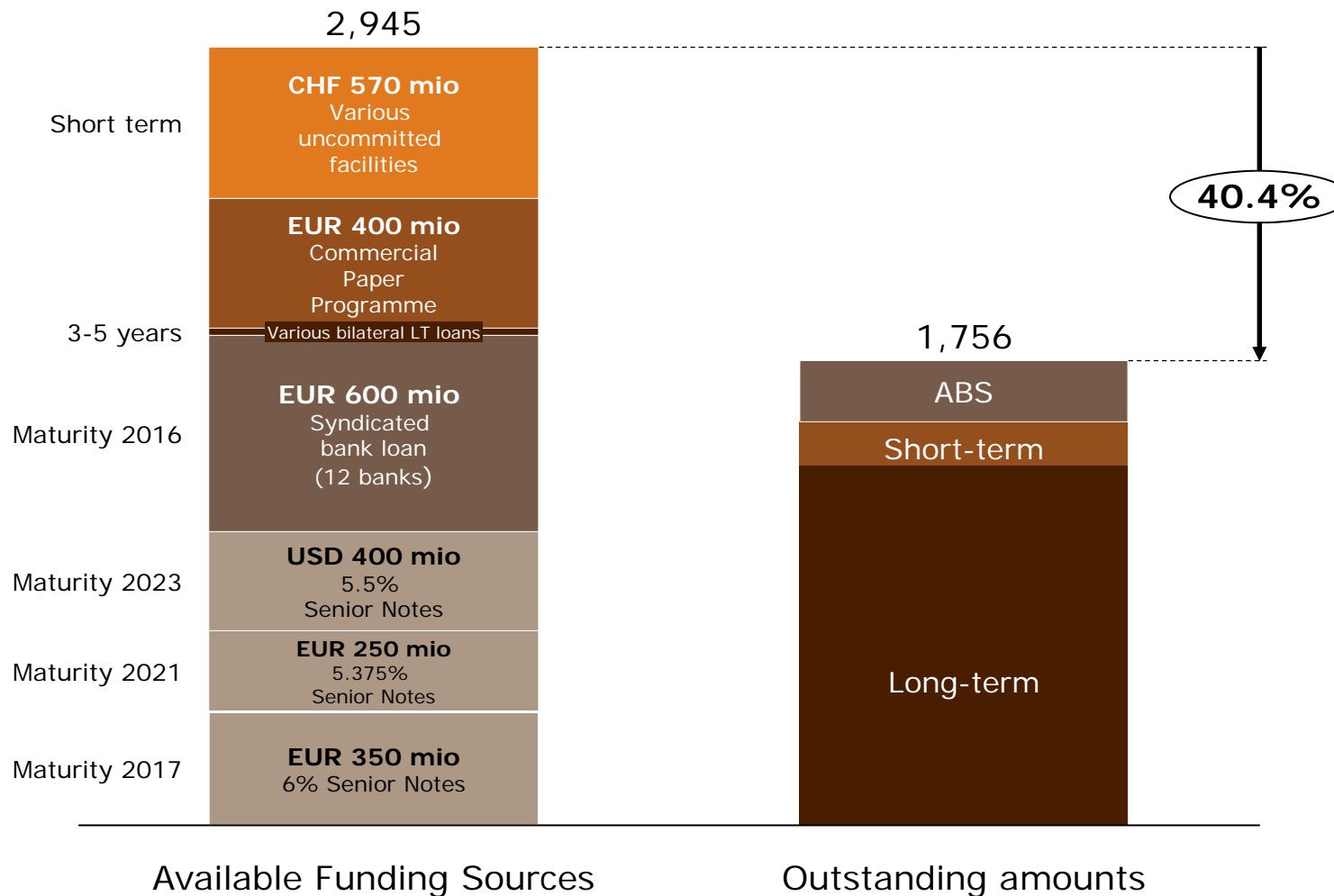
- Working capital is mostly composed of highly liquid inventories
- Net working capital requirements are closely linked to the cocoa bean harvest, with inventories peaking around January
  - Ample flexibility in financial arrangements to cover peaks in working capital needs



# Stable financing offering enough headroom for future growth and average maturity of 6 years

Financing and liquidity situation as of August 31, 2013

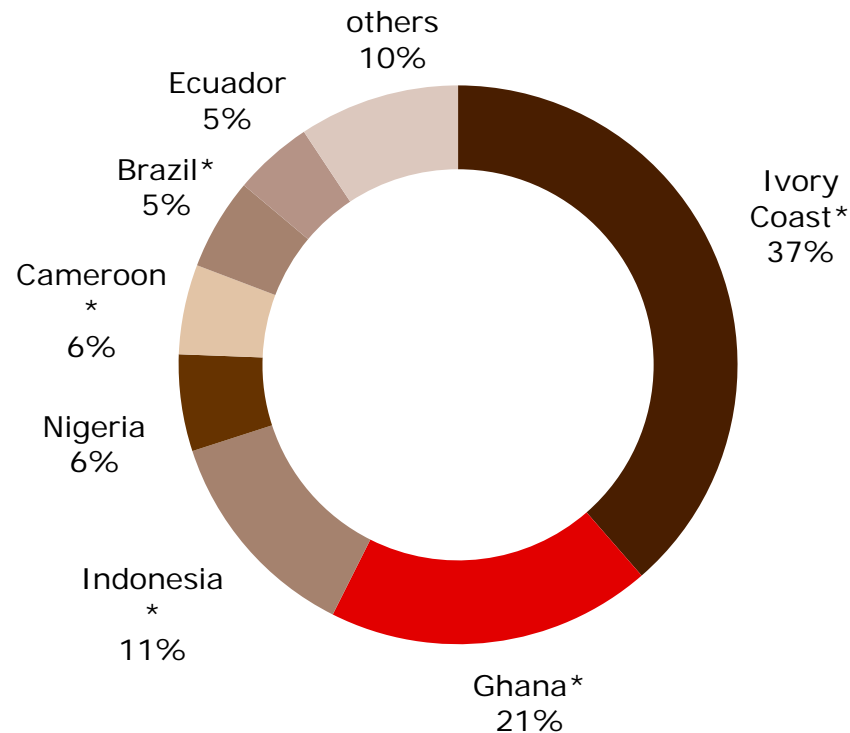
in CHFm





# West Africa is the world's largest cocoa producer – BC sources locally

Total world harvest (12/13): 3'986 TMT



Source: ICCO estimates

- ▶ About 70% of total cocoa beans come from West Africa
- ▶ BC stand-alone processed ~620,000 tonnes or 16 % of the world crop
- ▶ BC (including recently acquired cocoa business) will process ~920,000 tonnes or 23 % of the world crop
- ▶ 65% sourced directly from farmers, cooperatives & local trade houses
- ▶ Barry Callebaut has various cocoa processing facilities in origin countries\*, in Europe and in the USA