Financial Review

Business Performance Review Fiscal Year 2018/19

Profitable growth and good cash generation

The overall market conditions in 2018/19 were favorable with a growing global chocolate confectionery market (according to Nielsen[1] +1.8%).

The Group's volume for the fiscal year increased by +5.1% to 2,139,758 tonnes, with, as expected, a stronger contribution in the second half of the fiscal year. The good performance was broadly based across all Regions and Product Groups and supported by the key growth drivers Emerging Markets, Gourmet & Specialties and Outsourcing.

Operating profit (EBIT) increased by +11.9% in local currencies (+8.5% in CHF) to CHF 601.2 million, affected by a strong headwind from currencies of CHF –19 million. EBIT growth in local currencies was more than double the volume growth, supported by all Regions and Product Groups.

Net profit for the year[2] – excluding the one-off effect of the early bond repayment of CHF 33 million net of tax impact of CHF –7 million – grew by +14.2% in local currencies (+10.4% in CHF) to CHF 394.7 million. Reported net profit amounted to CHF 368.7 million, up +6.9% in local currencies (+3.2% in CHF).

Free cash flow amounted to CHF 289.7 million compared to CHF 311.9 million in the previous fiscal year and was impacted by the one-off effect of CHF 33 million for the early bond repayment. Adjusted for this effect and for the cocoa beans considered as readily marketable inventories (RMI), the adjusted Free cash flow amounted to CHF 256.8 million compared to CHF 316.6 million in the prior year. Additionally the Group increased its capital expenditure compared to prior year by around CHF 60 million to cater for future growth.

Corporate strategy and mid-term guidance

Through consistent execution of its long-term strategy based on the four pillars: Expansion, Innovation, Cost Leadership and Sustainability, Barry Callebaut successfully concluded its 4-year mid-term guidance[3].

The Group delivered on average +4.5% volume growth and +13.9% EBIT growth in local currencies, for the 4-year period 2015/16 to 2018/19.

A 'smart' balance between consistent above-market volume growth and enhanced profitability remains a key focus. In January 2019, Barry Callebaut renewed its mid-term guidance for the 3-year period 2019/20 to 2021/22:

- Average volume growth 4–6%;
- Average EBIT growth above volume growth in local currencies, barring any major unforeseen events.

Slight increase in cocoa bean prices, ongoing volatility in other raw material prices

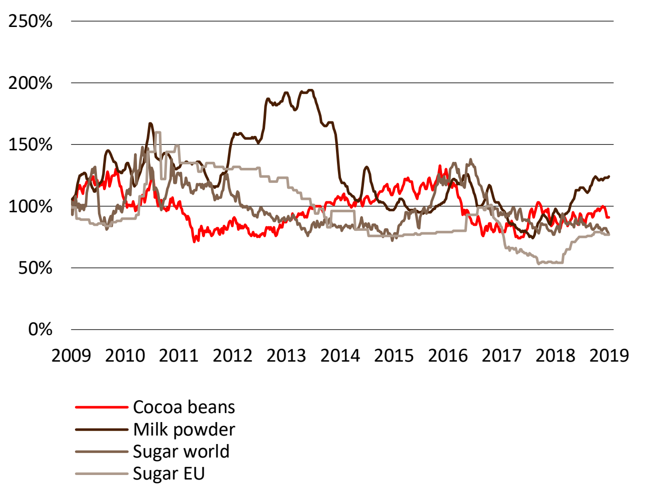
During fiscal year 2018/19 cocoa bean prices fluctuated between British pound 1,500 and British pound 1,900 per tonne and closed at British pound 1,709 per tonne on August 30, 2019. On average, cocoa bean prices increased by +4.5% versus prior year. Global bean supply and demand were balanced. The world cocoa production further expanded and the good demand for cocoa beans also continued. Côte d'Ivoire and Ghana announced in July 2019 a living income differential (LID) of USD 400 per tonne of cocoa beans, effective as of the 2020/21 crop.

The average combined ratio remained at a healthy level. The slight deterioration compared to the prior year was due to higher cocoa bean prices while there was an ongoing good demand for cocoa products.

Sugar prices in Europe increased during the year (+41.0%) due to a disappointing 2018 crop. In contrast, the world market price for sugar declined by –3.7% due to a production surplus.

Dairy prices increased during the fiscal year 2018/19 by +28.9% due to deteriorated production conditions and increased demand.

Raw material prices
September 2009 to September 2019



Source: Data compiled by Barry Callebaut, based on key market price indicators.

1 Source: Nielsen, August 2018 to August 2019 – 25 countries, excluding e-commerce channels.
2 Net profit excluding one-off costs for early bond repayment of CHF 33 million, partly offset by the tax effect of CHF 7 million.
3 On average for the 4-year period 2015/16 to 2018/19: 4-6% volume growth and EBIT above volume growth in local currencies, barring any major unforeseen events.

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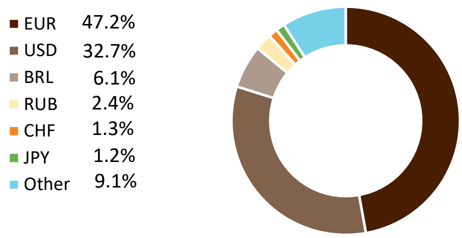
Foreign currencies

In fiscal year 2018/19, volatility in foreign exchange markets remained, mainly in emerging market currencies. The Group is naturally hedged to the extent that it produces and sells products locally and hedges any remaining currency exposure that arises from commercial transactions. The impact arising from the translation of results into the Group's reporting currency (Swiss franc) however is not hedged.

For the fiscal year under review, the average exchange rate for the euro, which accounts for around half of the Group's sales revenue, depreciated by –3.2% against the Swiss franc. On the other hand, the US dollar appreciated slightly by +1.9% against the Swiss franc. The development in some major emerging market currencies remained very volatile during fiscal year 2018/19, with the Brazilian real –9.9% and the Russian ruble –7.2% further depreciating against the Swiss franc.

The currency translation effects mentioned above created a strong headwind and had a negative impact of –2.6% on sales revenue and –3.4% on operating profit (EBIT).

Sales revenue in functional currencies



Solid growth in global chocolate demand

The global chocolate confectionery market continued its solid growth and according to Nielsen[1] grew by +1.8% during the period under review.

Consolidated Income Statement

Profitable growth

Sales volume for the fiscal year 2018/19 increased by +5.1% to 2,139,758 tonnes with, as expected, a stronger contribution in the second half of the year.

Sales volume in the chocolate business grew by +5.9%, well above growth of the global chocolate confectionary market[1]. All Regions and the key growth drivers Outsourcing (+5.2%), Emerging Markets (+9.7%) and Gourmet & Specialties (excluding Beverages +6.1%) contributed to the good momentum. Global Cocoa volumes increased by +2.4%.

Sales revenue increased by +7.8% in local currencies (+5.2% in CHF) to CHF 7,309.0 million. The increase in sales revenue was supported by the first-time adoption of IFRS 15[2] and higher raw material price, which the Group passes on to its customers for a large part of its business. Excluding the IFRS 15 effect sales revenue grew by +5.6% in local currencies (+3.0% in CHF).

Gross profit developed in line with the growth in sales volume and amounted to CHF 1,188.4 million, up +5.1% in local currencies (+2.7% in CHF). The improvement from volume growth and product mix was offset by costs for structural improvements of the operations.

Marketing and sales expenses increased by +1.2% to CHF 151.8 million. The increase at a lower rate than the Group's volume growth was the result of cost discipline and favourable currency effects. The Group continued to promote its innovations and margin-accretive business, which includes investments in the Emerging Markets distribution network and the global footprint of its CHOCOLATE ACADEMY™ Centers.

General and administration expenses remained stable at CHF 439.9 million (+0.3%). The increase related to the Group's growth and the effect of acquisitions could be fully compensated thanks to the Group's continued focus on costs and supported by favorable effects from the modification of Swiss pension plans and currency translation.

Other income amounted to CHF 29.5 million compared to CHF 19.6 million in the prior year. This position contains non-sales-related income such as income from the Group's training center, the sale of waste products, grants obtained from governments as well as claims related to insurances and suppliers. The latter three items were largely accountable for the favourable movement year on year.

1 Source: Nielsen, August 2018 to August 2019 – 25 countries, excluding e-commerce channels.
2 For details on transition refer to Consolidated Financial Statements, Introduction of new standards in 2018/19, IFRS 15 – Revenue from Contracts with Customers – Consolidated Income Statement impact.

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Other expenses amounted to CHF 25.1 million compared to CHF 31.7 million in prior year. This position comprises costs related to litigation and claims, losses on disposal and impairment of assets, impairment charges and some other non-recurring items. The decrease compared to prior year is mainly due to lower losses on disposals and impairments of assets partly offset by higher costs for litigation and claims.

Further improvement in EBIT and EBIT/tonne

Operating profit (EBIT) increased by +11.9% in local currencies (8.5% in CHF) to CHF 601.2 million, affected by a strong headwind from currencies (CHF –19 million). EBIT growth in local currencies thus was more than double the volume growth, supported by all Regions and Product Groups.

As a result, the Group's **EBIT per tonne** continued to improve to CHF 281, which represents an increase of +6.5% in local currencies (+3.3% in CHF) compared to prior year.

Finance income increased to CHF 10.9 million from CHF 6.5 million in prior year.

Finance expense amounted to CHF 159.3 million, compared to CHF 107.7 million in the previous year. The increase is mainly due to the effect of the early bond repayment of the EUR 250 million 5.375% Senior Note in August 2019 amounting to CHF 33 million[1]. In addition, the higher average net debt related to the first-time adoption of IFRS 15[2] contributed to the increase of finance expense.

Income tax expenses decreased to CHF 84.0 million from CHF 95.5 million in the prior year. The prior year was impacted by tax reforms in Belgium and the US leading to a one-time non-cash expense of CHF 12.9 million. The Group's effective tax rate amounted to 18.6% (prior year 21.1%, respectively 18.2% excluding the aforementioned one-time tax effect).

Net profit for the year – excluding the one-off effect for the early bond repayment – grew by +14.2%[1] in local currencies (+10.4%[1] in CHF) to CHF 394.7 million. Reported net profit for the year amounted to CHF 368.7 million, corresponding to +6.9% in local currencies and +3.2% in CHF.

Consolidated balance sheet – further improved ratios due to increased profitability

Total assets increased by +11.6% to CHF 6,508.1 million at the end of August 2019, compared to CHF 5,832.0 million the year before. Inventories increased mainly due to the first-time adoption of IFRS 15[2]. The increase in derivative financial instruments, cash and property, plant and equipment and intangible assets could only be partly offset by lower receivables.

Net working capital as of August 31, 2019 decreased to CHF 1,363.2 million from CHF 1,403.4 million in prior year (pro forma adjusted for IFRS 15[2]). The impact of the Group's volume growth on working capital was more than compensated for by the continued focus on working capital management and cash flow generation.

Net debt decreased to CHF 1,304.7 million at August 31, 2019, from CHF 1,409.3 million in prior year (pro forma adjusted for IFRS 15[2]). The weighted average maturity of the long-term debt increased from 4.9 to 5.9 years.

Equity – including equity attributable to the shareholders of the parent company and non-controlling interests – increased to CHF 2,413.6 million compared to the CHF 2,285.5 million at the end of August 2018. Equity attributable to the shareholders of the parent company amounted to CHF 2,399.3 million compared to last year's CHF 2,269.8 million. The increase mainly results from the net profit generated, partly offset by the payout to shareholders, the negative net effect of the remeasurement of defined benefit plans and negative cumulative currency translation adjustments.

The debt-to-equity ratio improved from 62.2% to 54.4%, the solvency ratio slightly improved from 36.8% to 36.9% (prior year numbers adjusted for the effect of IFRS 15[2] for comparability reasons), and the return on invested capital (ROIC) increased from 12.2% to 13.2%.

1 Net profit excluding one-off costs for early bond repayment of CHF 33 million, partly offset by the tax effect of CHF 7 million.
2 For details on transition refer to Consolidated Financial Statements, Introduction of new standards in 2018/19, IFRS 15 – Revenue from Contracts with Customers – Consolidated Balance Sheet impact.

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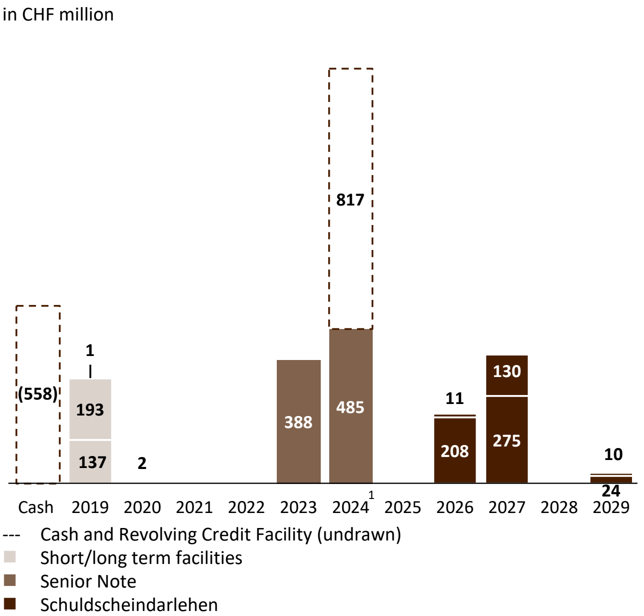
Liquidity – debt maturity profile



1 Revolving Credit Facility extended to 2024 in October 2019.

Consolidated Cash Flow Statement

Cash generated from operating activities amounted to CHF 789.8 million compared to CHF 671.2 million in the prior year. Changes related to working capital amounted to CHF 33.0 million compared to CHF –54.6 million in the prior year. Cash outflow for interest increased to CHF –139.7 million compared to CHF –93.1 million in prior year, mainly due to the effect of the early bond repayment in the amount of CHF –33 million. Cash outflow for tax was CHF –94.3 million compared to CHF –62.6 million in prior year.

Overall, this resulted in a **net cash from operating activities** of CHF 555.7 million compared to CHF 515.5 million the year before.

Net cash flow from investing activities amounted to CHF –300.0 million (prior year: CHF –330.3 million). The amount was largely related to the Group's investments of CHF 279.6 million in property, plant and equipment as well as in intangibles (prior year CHF –217.9 million). This increase is related to higher capital expenditures in factories and information management to cater for further growth. In addition to that, there was a cash outflow related to acquisitions in the amount of CHF –34.0 million (prior year CHF –126.7 million).

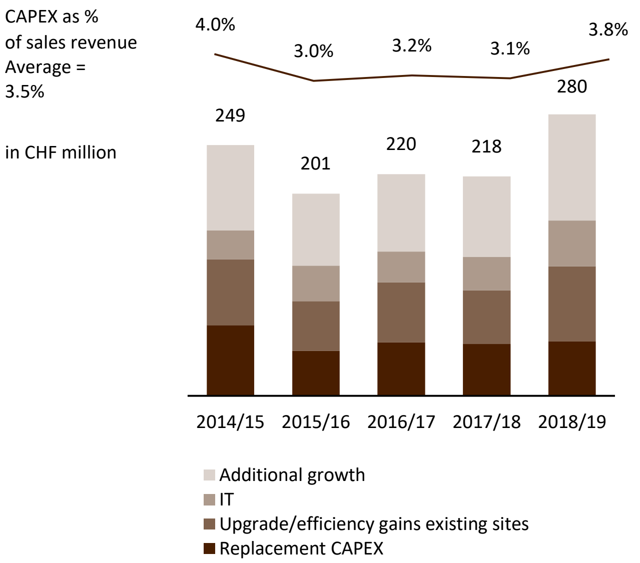
Net cash flow from financing activities amounted to CHF –192.7 million, compared to CHF –174.0 million in prior year. Net cash outflow in the current year was impacted by the repayment of debt amounting to CHF –814.5 million, of which CHF –281.4 related to the early redemption of the EUR 250 million Senior Note. On the other hand the Group issued new debt in the amount of CHF 776.1 million – of which CHF 675.6 million related to the issuance of a Schuldscheindarlehen (prior year debt repayment of CHF –73.7 million and debt issue CHF +32.6 million).
The position also contains the cash-out in the amount of CHF –131.5 million for dividends (prior year CHF –69.9 million for dividends and the nominal capital reduction CHF –39.9 million) as well as the cash outflow of CHF –22.8 million for the purchase of treasury shares (prior year CHF –22.8 million).

Free cash flow amounted to CHF 289.7 million, compared to CHF 311.9 million in the previous fiscal year. Excluding the one-off impact of CHF –33 million for the early bond repayment, Free cash flow amounted to CHF 322.7 million. Adjusted for the cocoa beans considered as readily marketable inventories (RMI), the adjusted Free cash flow amounted to CHF 256.8 million compared to CHF 316.6 million in prior. Additionally the Group increased its capital expenditure compared to prior year by CHF 61.7 million to cater for future growth.

Capital expenditure

Capital expenditure reflected in the cash flow statement amounted to CHF –279.6 million (fiscal year 2017/18 CHF –217.9 million). The increased amount is to cater for future growth, while the Group maintained its focus on investments that best support its strategy of 'smart growth' by selectively approving capital expenditure with a high return on investment.

Capital expenditure



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Outlook

The Barry Callebaut Group remains committed to pursuing its successful 'smart growth' strategy. As announced in January 2019, the Group renewed its mid-term guidance for the 3-year period 2019/20–2021/22: on average 4–6% volume growth and EBIT growth above volume growth in local currencies, barring any major unforeseen events. The good growth momentum, a strong innovation portfolio, and discipline in execution makes Barry Callebaut confident of delivering on its renewed mid-term guidance[1].

Barry Callebaut share performance

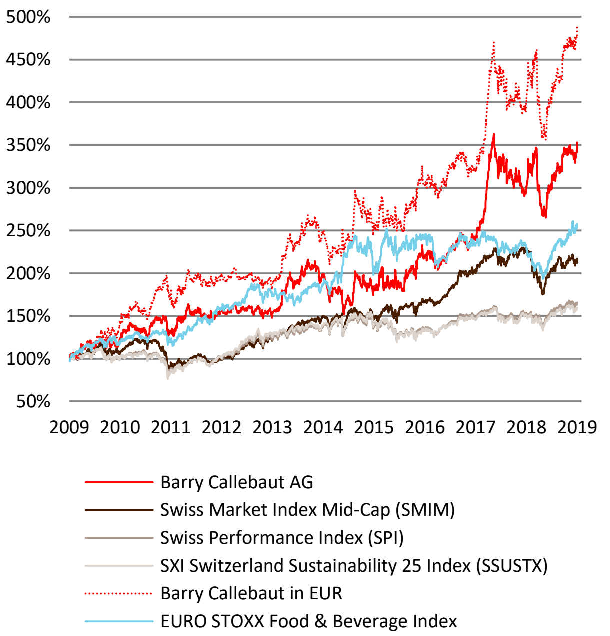
Barry Callebaut shares closed at CHF 2,024 on August 31, 2019, +17.1% above the previous year's closing price, and outperforming the market. EURO STOXX Food & Beverage Index increased +13.1% and SPI by +8.9%, in the same period, while Swiss Small and Mid Caps (SMIM) decreased –5.5%. Barry Callebaut also outperformed SXI Switzerland Sustainability 25® index basket (+6.9%), which brings together the 25 most sustainable companies listed in Switzerland. Barry Callebaut has been a member of this index since 2016. The index is based on an annual assessment by Sustainalytics of all companies composing the SMI Expanded® index. In 2019 Barry Callebaut was considered by Sustainalytics the leader on sustainability among 178 assessed Food & Beverage companies[2].

Key share data as of August 31, 2019

Shares outstanding	5.5 million
Closing share price	CHF 2,024
Market capitalization	CHF 11.1 billion
52-week high	CHF 2,024
52-week low	CHF 1,521
Average daily volume	9,710 shares

The chart below illustrates the long-term performance of Barry Callebaut shares compared to the relevant indices (2009–2019):

Share price development Barry Callebaut vs. indices



Over a ten-year period (2009–2019), the long-term performance of Barry Callebaut shares (+252.6%) exceeds the returns for the Swiss indices (SMIM +116.5%, SSUSTX +51.3%, SPI +66.3%). Its outperformance of the EURO STOXX Food & Beverage Index (+158.2%) is even stronger when calculating Barry Callebaut's share price in EUR (+390.8%).

1 On average for the 3-year period 2019/20 – 2021/22: 4-6% volume growth and EBIT above volume growth in local currencies, barring any major unforeseen events.
2 Source: Sustainalytics, Barry Callebaut AG ESG Report 2019.

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Dividend

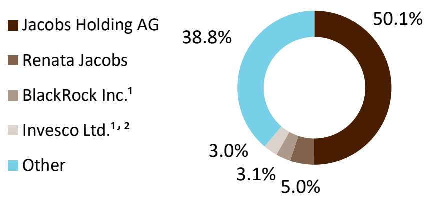
The Board of Directors will propose a payout to shareholders of CHF 26.00 per share (+8.3%) at the Annual General Meeting of Shareholders on December 11, 2019. This represents a payout ratio of 39%. The dividend will be paid to shareholders on or around January 8, 2020, subject to approval by the Annual General Meeting of Shareholders.

Key share data

The share capital of Barry Callebaut AG as of August 31, 2019 amounted to CHF 109,777, consisting of 5,488,858 fully paid-in shares with a nominal value of CHF 0.02 each. There is one single class of shares in which every share has the same voting power and grants the same entitlement to dividends.

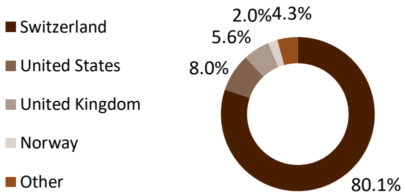
The free float, excluding the majority shareholders (Jacobs Holding AG and Renata Jacobs), at the end of August 2019 was 44.9%, with the majority of the institutional shareholders (holding 70.6% of total outstanding shares) based in Switzerland, followed by the US, the UK, Norway and other countries.

Ownership structure as of August 31, 2019



1 Based on notification through the electronic publication platform of the SIX Swiss Exchange.
2 In May 2019, Invesco Ltd. closed the acquisition of all shares in Oppenheimer Funds, which was a subsidiary of Massachussets Mutual Life Insurance Company.

Country split of institutional shareholders



Analyst recommendations

At the end of fiscal year 2018/19, of the eleven financial analysts covering Barry Callebaut, six had a Buy recommendation, four had a Hold recommendation and one had a Sell recommendation. At the end of August 2019, the average target price of consensus estimates was CHF 2,080.

Credit rating

Barry Callebaut has active relationships with Standard & Poor's and Moody's.
The current ratings are:

- Moody's: Baa3 / stable
- Standard & Poor's: BBB- / stable