# Financial Review

## Business Performance Review Fiscal Year 2019/20

After a strong start to the year, the impact of COVID-19 became more visible in the third quarter as governments began introducing stringent precautionary measures. The COVID-19-related lockdowns effectively closed down a number of important distribution channels for the Group, such as restaurants, hotels and chocolatiers. They also affected on-the-go and impulse consumption of chocolate. While costs related to business travel and promotional events declined, additional costs were incurred in relation to the Group's response to the pandemic. The Group recognized incremental costs of CHF 12.7 million in relation to personal protective equipment, sanitization activities, employee costs and logistics.

The Group has adopted International Financial Reporting Standards related to Leases (IFRS 16) as of September 1, 2019. Prior-year comparatives have been calculated on a pro-forma basis to reflect the estimated impact of IFRS 16 had it been adopted at the time. All comparatives in the Financial Review are based on prior-year pro-forma IFRS 16 except for the Consolidated Cash Flow Statement section, unless otherwise stated. For the current year impact of IFRS 16 see pages 46–49.

### Solid result in unprecedented times

In fiscal year 2019/20, Barry Callebaut's sales volume declined by –2.0% to 2,095,982 tonnes, as a result of the COVID-19 pandemic. After a –14.3% decline in the third quarter at the height of the pandemic, sales volume showed as anticipated – a recovery in the fourth quarter (–4.3%). Sales volume in the chocolate business declined by –2.1% in the fiscal year under review. The underlying confectionery market declined by –0.3%[1] according to Nielsen. Global Cocoa volume was down –2.0%.

Operating profit (EBIT) recurring[2] amounted to CHF 491.0 million, a decrease of –13.8% in local currencies (–18.5% in CHF) compared to prior year. Currencies had a strong, negative translation effect of CHF –29 million.

Net profit for the year recurring[2] amounted to CHF 319.3 million, a decline of –13.3% in local currencies (–18.5% in CHF). Reported Net profit amounted to CHF 311.5 million, down –9.4% in local currencies (–14.8% in CHF).

Strong Free cash flow generation continued and amounted to CHF 317.0 million compared to CHF 323.7 million in the prior year. Adjusted for the effect of cocoa beans considered as readily marketable inventories (RMI), the adjusted Free cash flow amounted to CHF 403.8 million compared to CHF 290.8 million in the prior year. The Group also maintained a stable capital expenditure of CHF 280.9 million (CHF 279.6 million in prior year) to continue its focus on investments that best support its strategy of 'smart growth.'

### Corporate strategy and updated mid-term guidance

The COVID-19 pandemic was a major unforeseen event which had a negative impact on fiscal year 2019/20. As COVID-19 has turned fiscal year 2019/20 into such an atypical and unforseeable year, it was excluded from the mid-term guidance. Based on the quality of Barry Callebaut's customer relationships, the breadth of its business model, as well as its strong innovation pipeline and balance sheet, the Group updated its mid-term guidance in July 2020 and introduced increased metrics for the 3-year period 2020/21 to 2022/23 of on average:

- 5–7% volume growth
- EBIT above volume growth in local currencies, barring any major unforeseen events and based on the assumption of a gradual recovery from COVID-19 without major lockdown resurgence.

### Rising prices for cocoa beans and other raw materials

During fiscal year 2019/20, cocoa bean prices fluctuated between GBP 1,560 and GBP 2,045 per tonne and closed at GBP 1,762 per tonne on August 28, 2020. On average, cocoa bean prices increased by +6.3% versus prior year. Global bean supply and demand remained balanced. World cocoa production slightly increased and, despite the impact of the COVID-19 pandemic, demand for cocoa beans remained robust. In July 2019, Côte d'Ivoire and Ghana announced 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 stable at a level of 3.6x, compared to 3.5x in prior year, with very resilient cocoa powder prices and slightly lower cocoa butter prices.

Sugar prices in Europe increased during the year (on average +7.6%) mainly due to a poor crop and a reduction in capacity induced by low prices in previous years. The world market price for sugar also increased on average by +4.1%.

1 Source: Nielsen volume growth excluding e-commerce, September 2019 to August 2020 – 25 countries. Nielsen data only partially reflects the out-of-home and impulse consumption, which was heavily impacted by the lockdowns due to COVID-19.

2 Operating profit (EBIT) recurring and Net profit recurring exclude the cost of CHF –7.8 million for the closure of the Makassar, Indonesia, cocoa factory.

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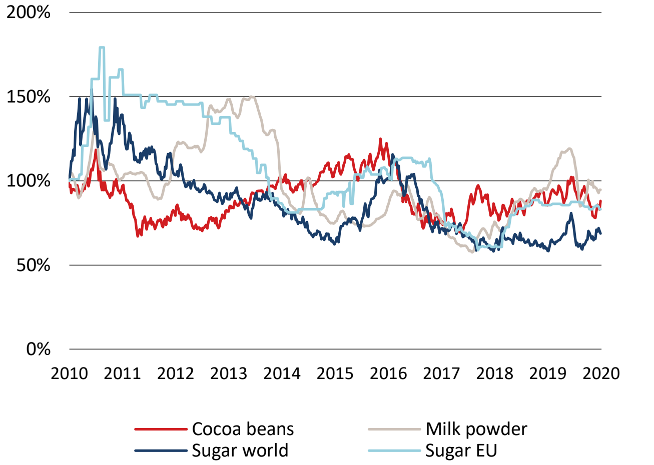
Dairy prices increased on average +21.0% during the fiscal year 2019/20 on the back of weak milk supply and strong demand in the first six months of the period under review. Due to COVID-19, demand has slowed down from the third quarter.

## Raw material prices
## September 2010 to August 2020




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

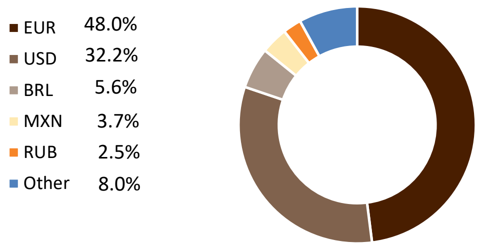
## Foreign currencies

In fiscal year 2019/20, volatility in foreign exchange markets remained, including a further strengthening of the Swiss franc against most major 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 –4.5% against the Swiss franc. The average exchange rate for the US dollar, accounting for around a third of the Group's sales revenue, also depreciated by –2.8% against the Swiss franc. Several major emerging market currencies remained very volatile during fiscal year 2019/20, with the Brazilian real –19.3%, the Mexican peso –9.7% and the Russian ruble –6.0% further depreciating against the Swiss franc.

The currency translation effects mentioned above created a strong headwind and had a negative impact of –5.3% on sales revenue and –4.7% on Operating profit (EBIT) recurring.

## Sales revenue in functional currencies




## Global chocolate demand in out-of-home channels and impulse consumption impacted by COVID-19

According to Nielsen, the underlying global chocolate confectionery market declined by –0.3%[1] in the year under review. Nielsen numbers mainly cover the mass retail segment, which continued to be accessible throughout the pandemic. However, the COVID-19-related lockdowns effectively closed down a number of important distribution channels, such as restaurants, hotels and chocolatiers, and they also affected the on-the-go and impulse consumption.

1 Source: Nielsen volume growth excluding e-commerce, September 2019 to August 2020 – 25 countries.

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## Consolidated Income Statement

### Progressive volume recovery, adverse mix effect

**Sales volume** in the fiscal year 2019/20 declined by –2.0% to 2,095,982 tonnes as a result of the COVID-19 pandemic impacting in particular the third quarter with a progressive recovery in volume during the fourth quarter of the year. In Asia Pacific volume grew (+7.4%) whereas in Americas (–1.4%) and EMEA (–3.6%) volume declined. Global Cocoa volume decreased by –2.0%. Food Manufacturers' was flat (+0.0%) and Gourmet & Specialties (–14.1%) declined due to the impact of the COVID-19 pandemic.

**Sales revenue** declined by –0.4% in local currencies (–5.7% in CHF) to CHF 6,893.1 million.

**Gross profit** amounted to CHF 1,063.7 million, a decline of –6.8% in local currencies (–11.3% in CHF) compared to prior year. The volume decline in the second half of the year due to the COVID-19 lockdowns, particularly in Gourmet & Specialties, had an adverse impact on the product mix.

**Marketing and sales expense** decreased by –5.7% to CHF 140.8 million. The decrease was attributable to cost savings across Regions, and favorable currency effects. The Group continued to promote its innovations and its CHOCOLATE ACADEMY™ Centers.

**General and administration expense** decreased to CHF 416.5 million (–4.1%). The decrease was attributed to cost savings and favorable currency effects.

**Other income** amounted to CHF 4.8 million compared to CHF 6.7 million in the prior year. This included income outside the ordinary course of business such as contributions towards sustainability initiatives.

**Other expense** amounted to CHF 28.1 million compared to CHF 19.3 million in prior year. The increase compared to prior year was mainly due to the impairment and severance costs attributed to the closure of the cocoa factory in Makassar, Indonesia.

Some items previously reported under Other income and Other expense are now attributed to the functional area they relate to, and the respective items have been reclassified in prior year for comparison purposes.

**Operating profit (EBIT) recurring,** which excludes the cost of CHF –7.8 million for the closure of the Makassar, Indonesia, cocoa factory, decreased by –13.8% in local currencies (–18.5% in CHF) to CHF 491.0 million. Currencies had a strong negative translation effect of CHF –29 million. The reported Operating profit (EBIT) amounted to CHF 483.2 million, down –15.1% in local currencies (–19.8% in CHF) compared to prior year. The Group's **EBIT (recurring) per tonne** declined to CHF 234 compared to CHF 282 in the prior year.

**Finance income** decreased to CHF 7.0 million from CHF 10.9 million in prior year mainly due to the lower interest rate environment.

**Finance expense** amounted to CHF 109.4 million, compared to CHF 159.3 million in the previous year. The decrease is mainly due to a one-off effect of CHF –33.0 million in the prior year related to the early redemption of the bond. This also led to a financing cost reduction for the current year. The decrease was partly offset by the introduction of IFRS 16 and COVID-19-related financing costs to ensure access to liquidity.

**Income tax expense** decreased to CHF 69.2 million from CHF 84.0 million in the prior year. The Group's effective tax rate amounted to 18.2% (compared to 18.6% prior year). Excluding the one-off, non-cash tax expense of CHF 1.0 million resulting from the Swiss tax reform, the effective tax rate was 17.9%.

**Net profit for the year (recurring)** – excluding the aforementioned cost for the closure of the cocoa factory in Makassar, Indonesia – declined by –13.3% in local currencies (–18.5% in CHF) to CHF 319.3 million, driven mainly by lower Operating profit (EBIT), that was partly offset by lower financing and income tax expenses. Reported Net profit for the year amounted to CHF 311.5 million, corresponding to a decline of –9.4% in local currencies and –14.8% in CHF.

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## Consolidated Balance Sheet

### Financing further enhanced

**Total assets** increased to CHF 7,141.1 million at the end of August 2020, compared to CHF 6,711.5 million in the prior year. The increase was attributable to a significantly higher cash position as a result of the placement of a new Schuldscheindarlehen in July 2020 and the right-of-use assets brought to the balance sheet as a result of the introduction of IFRS 16. This increase was partly offset by lower receivables and derivative financial assets.

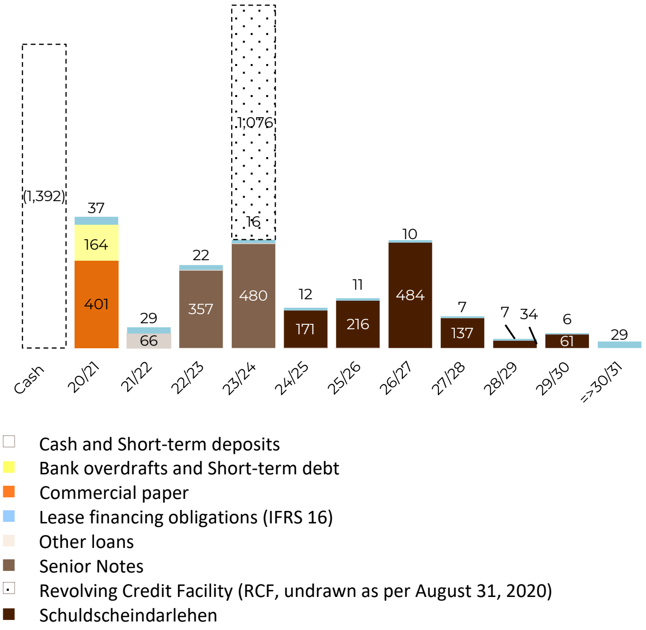
**Net working capital** as of August 31, 2020 decreased to CHF 1,192.0 million from CHF 1,363.2 million in the prior year as the result of good working capital management across the board and the benefit of lower receivables due to a COVID-19 impact on volume. This more than offset the impact of higher inventories due to rising cocoa bean prices.

**Net debt** decreased to CHF 1,365.9 million at August 31, 2020, from CHF 1,509.9 million in the prior year. Taking into consideration cocoa beans considered as readily marketable inventories (RMI), adjusted Net debt decreased to CHF 593.9 million from CHF 816.9 million in the prior year. Due to the uncertainty in the financial markets caused by the COVID-19 crisis, the Group took the precautionary measure to draw the full EUR 1,000 million Revolving Credit Facility (RCF) in March 2020. The amount was fully repaid in July 2020, using available cash as well as the proceeds from the CHF 450 million Schuldscheindarlehen issued in the same month. With these measures, we further strengthened the committed long-term liquidity structure at attractive rates with a weighted average maturity of 5.4 years.

**Equity** – including equity attributable to the shareholders of the parent company and non-controlling interests – was slightly lower and amounted to CHF 2,355.3 million compared to CHF 2,413.6 million at the end of August 2019. Equity attributable to the shareholders of the parent company amounted to CHF 2,353.5 million compared to last year's CHF 2,399.3 million. The slight decrease was a result of Net profit generated being more than offset by negative cumulative currency translation adjustments and the dividend payout to shareholders. The debt-to-equity ratio amounted to 58.0% compared to 62.9% in the prior year and the return on invested capital (ROIC) decreased from 12.5% to 10.3%.

## Liquidity – debt maturity profile

in CHF million




## Consolidated Cash flow Statement

### Strong Free cash flow generation

**Cash generated from operating activities** amounted to CHF 742.7 million compared to CHF 789.8 million in the prior year. Cash outflow for interest decreased to CHF –94.1 million compared to CHF –139.7 million in the prior year, which had been affected by CHF –33.0 million due to the early bond repayment. Cash outflow for tax amounted to CHF –55.0 million compared to CHF –94.3 million in the prior year.

Overall, this increased **net cash from operating activities** to CHF 593.5 million compared to CHF 555.7 million the year before.

**Net cash flow from investing activities** amounted to CHF –289.3 million (prior year CHF –300.0 million). The amount was largely related to the Group's investments of CHF –233.4 million in property, plant and equipment (prior year CHF –218.4 million) and CHF –47.5 million in intangibles (prior year CHF –61.2 million). In addition to that, there was a lower cash outflow related to acquisitions in the amount of CHF –12.8 million (prior year CHF –34.0 million).

**Net cash flow from financing activities** amounted to CHF 582.0 million, compared to CHF –192.7 million in prior year. Net cash inflow in the current year benefited from the issuance of a EUR 60 million (CHF 64.5 million) Private Placement in May 2020 and the successful issuance

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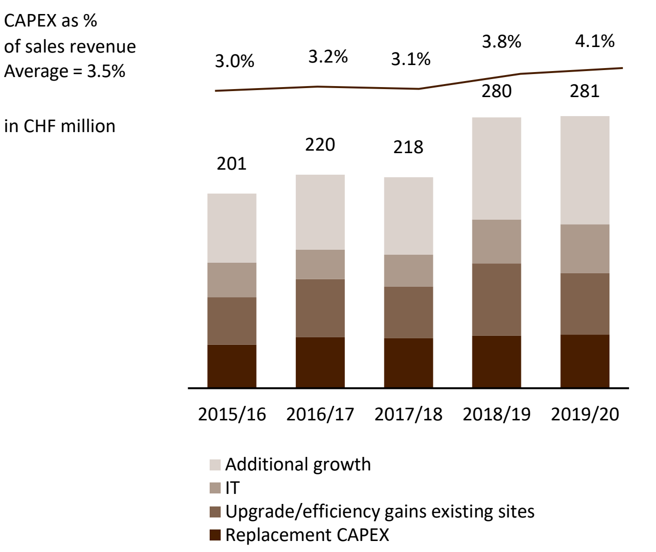
of a CHF 450 million equivalent Schuldscheindarlehen in July 2020. Inflows were partly offset by the cash-out in the amount of CHF –142.7 million for dividends (prior year CHF –131.5 million) as well as the cash outflow of CHF –27.3 million for the purchase of treasury shares (prior year CHF –22.8 million).

**Free cash flow** amounted to CHF 317.0 million, almost at the prior-year level of CHF 323.7 million (Pro-forma IFRS 16). Adjusted for the cocoa beans considered as readily marketable inventories (RMI), the adjusted Free cash flow strengthened to CHF 403.8 million compared to CHF 290.8 million (Pro-forma IFRS 16) in the prior year.

### Capital expenditure – remained stable

Capital expenditure reflected in the cash flow statement amounted to CHF 280.9 million, about the same level as in prior year (CHF 279.6 million). The impact of COVID-19 is seen as temporary and therefore the Group maintained its focus on investments that best support its strategy of 'smart growth.' Some projects were delayed due to COVID-19 precautionary measures and some growth-related projects have been postponed to prudently reflect short-term demand.

### Capital expenditure




## Outlook

The Group remains committed to pursuing its successful 'smart growth' strategy. As announced in July 2020, the Group updated its mid-term guidance for the 3-year period 2020/21 to 2022/23 of on average:

- 5–7% volume growth
- EBIT above volume growth in local currencies, barring any major unforeseen events and based on the assumption of a gradual recovery from COVID-19 without major lockdown resurgence.

Although markets are still volatile, the Group will further pursue expansion and drive for new opportunities, thanks to its continued focus on customers and a strong innovation pipeline. Together with the solid financial basis, this supports the confidence in the mid-term guidance.

## Barry Callebaut share performance

Barry Callebaut shares closed at CHF 2,000 on August 31, 2020, –1.2% below the previous year's closing price, having regained most of the ground they have lost since the start of the COVID-19 crisis in March 2020. While the share price clearly outperformed the EURO STOXX Food & Beverage Index, which declined by –27.8%, it lagged slightly behind the SPI (+1.8%), Swiss Small and Mid Caps (SMIM, +2.8%) and SXI Switzerland Sustainability 25® index basket (+0.2%).

### Key share data as of August 31, 2020

| | |
|---|---|
| Shares outstanding | 5.5 million |
| Closing share price | CHF 2,000 |
| Market capitalization | CHF 11.0 billion |
| 52-week high (closing) | CHF 2,222 |
| 52-week low (closing) | CHF 1,745 |
| Average daily volume | 15,690 shares |

Source: FactSet and SIX Swiss Stock Exchange

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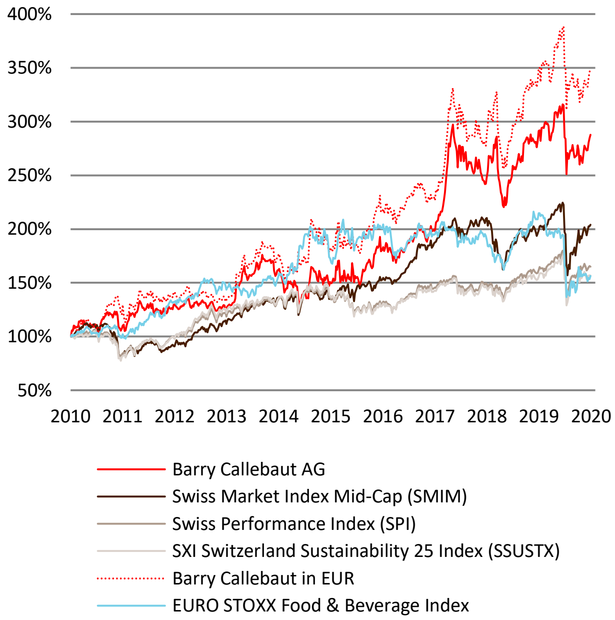
The chart below illustrates the long-term performance of Barry Callebaut shares compared to the relevant indices (2010–2020).

## Share price development Barry Callebaut vs. indices September 2010 to August 2020




Over a ten-year period (2010–2020), the long-term performance of Barry Callebaut shares (+187.8%) exceeds the returns for the Swiss indices (SMIM +104%, SPI +65.0% and SSUSTX +56.5%). Its outperformance of the EURO STOXX Food & Beverage Index (+56.3%) is even stronger when calculating Barry Callebaut's share price in EUR (+249.3%).

## Dividend – stable payout ratio of 39%

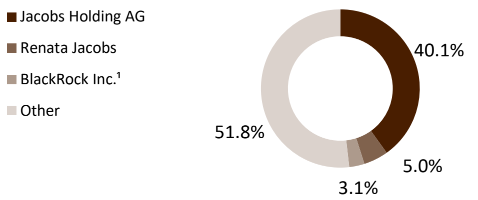
The Board of Directors will propose a stable payout ratio of 39%, equivalent to CHF 22.00 per share, at the Annual General Meeting of Shareholders on December 9, 2020. The dividend will be paid to shareholders on, or around, January 7, 2021, subject to approval by the Annual General Meeting of Shareholders.

## Key share capital data

The share capital of Barry Callebaut AG as of August 31, 2020 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.

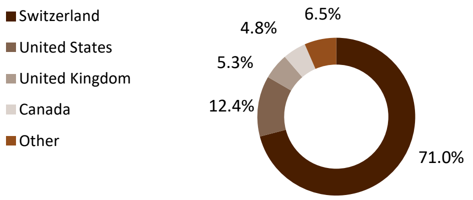
The free float, excluding the reference shareholders (Jacobs Holding AG and Renata Jacobs), at the end of August 2020 was 54.9%, with the majority of institutional shareholders (holding 67.6% of total outstanding shares) based in Switzerland, followed by the US, the UK, Canada and other countries.

## Ownership structure as of August 31, 2020




1 Based on notification through the electronic publication platform of the SIX Swiss Exchange.

## Country split of institutional shareholders




Source: IHS Markit

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## Analyst recommendations

At the end of fiscal year 2019/20, of the ten financial analysts covering Barry Callebaut, five had a Buy recommendation, three had a Hold recommendation and two had a Sell recommendation. At the end of August 2020, the average target price was CHF 2,048.

## Sustainability ratings

In 2020, Forever Chocolate was recognized by Sustainalytics as the #2 sustainability strategy, out of 182 assessed companies in the packaged food industry. Sustainalytics is the leading company assessing the industry's efforts to manage the environmental, social and governance risk in supply chains. Just as in 2018/19, Sustainalytics ranked Barry Callebaut at the top, showing that the Group is consistently leading among peers.

## 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