Barry Callebaut

Full Year Results Presentation
6th November 2024

Barry Callebaut

Peter Feld, Chief Executive Officer, President of the Executive Committee

Peter Vanneste, Chief Financial Officer; Member of the Executive Committee

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Introduction

Sophie Lang, Head of Investor Relations
Good morning, everyone, and welcome to Barry Callebaut's full year '23- '24 results presentation. I'm Sophie Lang, Head of Investor Relations, and it's my pleasure to welcome those of you in person today at the SIX Convention Centre in Zurich, and also welcome to those of you online joining us via webcast.

Our session today will be hosted by our CEO, Peter Feld, and our CFO, Peter Vanneste. We're of course going to cover the full year results, as well as some strategic updates and progress on our BC Next Level transformation programme.

Before we get started, of course, just draw your attention to the usual disclaimer, and to remind you that today's session is being recorded. And with that, I hand you over to our CEO, Peter Feld.

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Key Highlights

Peter Feld, Chief Executive Officer, President of the Executive Committee
Thank you very much, Sophie, and good morning to all of you here in the room, as well as online. Thank you very much for joining our full year results conference today.

Let me start in saying a big, big thank you to my entire organisation at Barry Callebaut. The past year has been probably a year of the biggest disruption, as you all are aware, in the global sourcing of cocoa as well as the pricing fallouts that we have seen. And in addition to that, we continued, and we built out our first year on our Next Level Investment Programme to set Barry Callebaut up for the future.

As I shared with you a year ago, we are literally still a young company. We're only 25 years young. And with these investments, we are really preparing for the next decade of unparalleled, profitable growth for Barry Callebaut.

Now, when you sum up what we are sharing with you today and what Peter will detail later, then it's clear that, you know, we are confirming our growth strategy that we've shared with you in November '23.

We, on the other side, have delivered in this year of the biggest disruption in the cocoa supply, as well as in the first year of our Next Level transformation programme, solid results. The milestones that we've achieved in Next Level are manyfold. And I will have a separate chapter to take you through the key achievements that the organisation has been delivering over the past 12 months. And obviously an outlook into the next year as we unfold all of the other activities that we have.

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Looking forward, we will continue to navigate a disrupted supply environment on the cocoa side as we move in the second year of our Next Level Investment programme.

Just on our growth priorities, we have mapped out last year to you four growth priorities. In fast-moving consumer goods, we want to win two of three outsourcing deals. We need to earn the right to do that, and that's why we're investing into the company, and we'll share more about us going from an ingredient supplier really to become the recognised provider of chocolate solutions globally for our customers. We've made good progress on that, initial progress, despite the headwinds that we actually had in the past 12 months.

On Gourmet, we had set out the ambition to double our business, and again here good progress. We want to scale up the Specialties business as this is helping to sweeten the margins, both in the FMCG side as well as in the Gourmet side.

And then in Asia, where historically we have just been starting late, we want to go to fair share.

Now, when we announced that growth strategy to you in November, we have articulated what we call OGSM for our Group, Objectives, Goals, Strategies and Measures. We've then asked all of the 20 new country cluster managing directors to come forward and explain how, for example, Turkey fits into this role and how China fits into this overall concept. And that has all been assembled together, and we built a mid-term plan for the Group that obviously also entails the new capabilities that the Next Level investment programme is bringing us. So we now have a machine that is well set up and that we will continuously deliver as we go forward.

In terms of results, you see that we have, in every of those elements, made good progress going forward. We've won the first key deals that we wanted to have in the FMCG environment, just to name a few. We had a major win in ice cream in Europe. We had a new customer agreement in North America and an expansion on our Tony's Chocolonely one, both internationally and in the US, which is a new country that they're entering.

So we have good first progress. We're not where we want to be yet, but on the other side, this is the first year where we're going and we're happy that we're seeing traction in this environment.

I want to also, and Peter and I will talk about that more, we are currently in a discussion phase that our customers in FMCG have with their retailers. Following the high inflationary environment in ’22, obviously there was significant price action of our customers in retail. And as you know from the press and from your other companies that you're tracking, there's obvious discussions that still need to happen to actually move the cocoa price into the consumer hands.

And that's a short-term disruption that we think we will continue to see going forward. But I must tell you, I'm also absolutely convinced that chocolate consumption will prevail and continue to carry up as we've shown you last year, as it has been in the past 50 years. We showed you that it was consecutively growing with 2.5% over the past 50 years, despite wars, financial crisis and other activities in the market.

So we're fully convinced that with 2.5 billion new consumers entering the category, we will see more growth coming in that area. That's FMCG.

In Gourmet, I'm very happy to say that we regained the market share losses that we had in fallout of Wieze. We're nearly growing double digit, so that's a big step forward here in our non-packaged goods side. And I'm also very happy to say that we've just launched our first direct-to-customer web shop literally yesterday in Germany. So for the first time, our end customers, not the distributors we've been historically working with, have now access to source product, and by the way, subscribe to products from Barry Callebaut in the future. It's a little first step. We're obviously expanding that with our Next Level investment programme.

In Specialties, we have undertaken a major analysis on all the things that we've acquired in Barry Callebaut over the past 25 years to really focus on what matters most for our Chocolate customers globally. And with that, we have now a clear understanding in the portfolio of the products where we say this is what we want to retain to take forward and scale internationally, and this is what we will probably not drive forward, and this is what we will not expand as we go forward.

So very clear strategy now in this Specialties area that will help us improve our mix in both the FMCG side as well as with our Gourmet customers.

And then Vamsi Mohan Thati has done a great job with this organisation in AMEA, Asia, Middle East and Africa, to already deliver a double-digit or increase of double-digit growth in the past six months, which is quite amazing. So you know we've invested in resources, and he has delivered that despite the headwinds that we have in China, which as you know in China is still at the ever lowest consumer sentiment at this moment, obviously dragging the entire industry back, including us. But again here, great opportunity for us to go forward and seeing that progress that Vamsi has unlocked through increased penetration in Asia.

Let me say a few words before Peter also starts on the Cocoa Crop Outlook 24/25. You know that we're entering right now the biggest harvesting season, and we put a few dimensions together to explain it.

The weather conditions in Africa are certainly better than a year ago, hence the pod count that our teams are doing, and you know that we have a very thorough work underway to really understand how the blossom is actually going into the pods and then actually developing in a full harvest. We see a significant improvement versus last year, however still not at the ‘22- ‘23 levels.

And that's very simply driven by certain legislation that has been put in place in West Africa in 2018, that for example prohibits farmers to replant trees. At that point in time, the government was concerned about expansion and erosion of prices. We now obviously have an opposite situation, but a farmer currently, and that's speaking to the diseases when there's an area of a swollen shoot, is not allowed technically yet to actually replant trees.

So we're having significant discussions with the government in Ghana as well as in Côte d'Ivoire. I've been last time in July in Côte d'Ivoire, and I will be back in two weeks to work with the government, and we have a strong activity that I will explain later in conjunction with the Next Level programme of how we want to actually enhance productivity in smallholder farming and work together with the government to actually change that paradigm of not replanting.

I do think the message has landed with the government, both in Ghana as well as in Côte d'Ivoire, but we need to put it in legislation. We need to continue to get allowance to actually go for seedling planting again, and that's the journey that we're on there with the government.

So what you can see in farm investment on this slide, we have a bit of a split world. Where we have farm gate prices, that is actually where the state dictates the price that goes to the farmer, which is the case in Côte d'Ivoire and in Ghana, we have no improvement in productivity yet because the increase to go to $3,000 has only been implemented literally six weeks ago or eight weeks ago. And so from that perspective, we can't assume that for this harvest, we would have an improvement in productivity based on more money with the farmers and investment into fertilisers, into replanting and other activities.

That's different outside of Côte d'Ivoire and Ghana. For example, in Ecuador, where the farmer has actually benefited from the high cocoa prices and where you can clearly see an investment going forward into productivity in the farms. So it's a bit of a mixed picture. As you know, Côte d'Ivoire and Ghana account for the vast majority of the cocoa from around the world, and that's obviously important that we spend time there with the government to make the right changes in legislation to actually bring that product back up.

I can tell you that I've met in my last visit the Minister of Industry, the Minister of Forest, the Minister of Agriculture, and we had very good discussions. As everybody knows, that cocoa is the biggest GDP contributing element in Côte d'Ivoire at this point in time. Obviously, they're interested to also bring other things into Côte d'Ivoire, but that productivity step up is very clear for everybody that that has to happen.

Demand, as I mentioned earlier, will continue to go up. We do believe that we have this short-term discussion going on between our customers and their customers, i.e., the retail partners, but we think it's a short-term phenomenon and we're convinced that the overall chocolate consumption continues to go up as 2.5 billion Asian consumers are entering the market.

So, speaking a bit about our strategy, I've announced in May the Future Farming Initiative after we signed our first partnership with a large high-tech farm in Brazil. Steven Retzlaff, who has been building the global cocoa business for Barry Callebaut for over 25 years, has become the Executive Chairman for that endeavour. It's literally an investment vehicle where we will bring modern high-tech farming large-scale to life.

Since Steven has taken on his journey, he's made significant progress to map out the playbook, how to do that. We've onboarded a new CEO for this legal entity and this concept, Jorge Costa, who has joined us from Louis Dreyfus, where he actually headed up as a chief operating officer, the largest citrus operation for Louis Dreyfus in Brazil, high-tech modern farming. And before that, he actually worked for Cutrale, who's the other large-scale high-tech farm that actually has done that. So we're building the team to really get going on that, and you will hear more about that as we go forward.

Customer reaction is highly attractive. I want to tell you that Future Farming Initiative is a competitive discussion. So this is something that Barry Callebaut unlocks for the industry with investors and maybe a few selected customers, but that's it.

We want really to see that we bring this to life, that the scaling of high-tech farming has not happened in this industry yet. We do think we know it because we have spent the past eight years to actually define all the details of how to do that in Ecuador, in our own farm, and we're bringing it to life with the Future Farming Initiative under Steven Ratzlaff's leadership.

On the other side, on smallholder farming, and as I was already explaining before, Alain Freymond, who now heads up the Global Cocoa business, has been working with Steven for the past 20 years, and since April is heading up the Global Cocoa for Barry Callebaut, has worked on how to improve smallholder farming.

And that is pre-competitive. That is something we want to do together with our customers, and we want to do together with the associations, and probably also with competitors. It's something where we need to influence legislation at the country level, and that's the journey that we're on here, to radically transform farming in the smallholder farming area.

Put more money with the farmer, hence have more productivity in the country, but also be clear on the capabilities that we can bring to the country from Barry Callebaut to really improve productivity in smallholder farming.

So that's the two legs that we have built, that we're standing on, to build the future of our supply, and I can tell you that our customers are thrilled by doing that, by us doing that. It's a very good response that we're seeing from them, and stay tuned, there's more to come on both sides.

So when you think about the journey that we've mapped out to you last year, then we're well underway with the first implementation of our Next Level foundational activities. This fiscal year, '24, '25, we need to bring it to life. There's a lot that is happening there, really start delivering, and we've just had a conference with 250 top leaders from around the world, the third one that we've been doing since the announcement of Next Level, in Rotterdam this time, where we said, look, Next Level was step one, step two is the journey that we're entering for customer experience. That is fundamentally important.

It's interesting that - and I said that already a year ago, and we'll speak a bit more, if we're not creating the right value for our customers, the right service for our customers, the right and the best sustainability and food safety, then we have no reason to play. If we do it right, we should get more market share, and we can carry on that business. That's why we're driving this journey forward.

And I want to share with you that Amr Arafa, who is our new Chief Digital Officer since January, with his team, have built a full digital agenda that based on the reset of Barry Callebaut and the simplification and standardisation of our work processes, we have a full agenda on digital, how we can actually collaborate better in Barry Callebaut, but also open the doors for better collaboration with our customers.

So I think the journey is running here very clearly. And that's the message that I want to give to you from an ingredients supplier to become the recognised chocolate solutions provider for the world.

So for that, we have also taken the customer experience element of which we say the KPI is actually the net promoter score, to really make that the core KPI for Barry Callebaut's doing. We are here to serve our customers. That's why we're here. Only if they give us a reason to play, only if they give us more of their supply chain, they believe we can do a better job than they are doing today, only then we have a reason to play. And that's why we're taking this very seriously.

We have taken the first global assessment for a net promoter score with the customer base around the world. We've not done that with personas yet. We want to do that next time with personas. So what is the CEO thinking? What is the brand president thinking? What is the R&D leader of the customer thinking? And what is the procurement leader thinking? So we need to have that persona focus by customer globally. That will be the next step. And you will see us embedding that deeply into Barry Callebaut's culture as we go forward.

Best value, which is price and innovation, the right innovation that wows our customers. Best service, which is on time and full delivery. And I speak to my organisation a lot that we want to create an Amazon-like customer service experience. We do not want to become an Amazon, but what we want to create is the same seamless and ease of working that an Amazon and other digital platform is actually giving to us. That's what we should give our customers, and that's what we're building with Next Level. Best sustainability, quality, and food safety.

So I will speak more to those four elements when I explain a bit more about Next Level and what we've already done in that journey, but I want to leave that to Peter now to first talk about the financial results. Thank you.

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Financial Review

Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Thank you, Peter and good morning, everyone. I'll walk you through the financial results, but I do have to say that my first year at BC has been memorable, going into a major transformation programme, facing a market that's in decline, facing also 1.8bn cost inflation. So it's been quite a year, as no surprise to you from the previous conferences, so it's been memorable.

And in that highly volatile environment, both on the supply side, both on the demand side, we've been delivering flat overall volume growth and slightly positive on Chocolate in a declining market, as I said, which does demonstrate our resilient business model that we have.

We have delivered strong EBIT on a recurring basis, which is here really showing that our cost-plus model, even in the most extreme environments, is doing its job and protecting profitability.

And finally, our free cash flow, and I will talk a lot more about that, because that's of course the biggest variable in our numbers this year, has been majorly impacted by the cocoa bean price acceleration, and that has more than offset the good underlying operational free cash flow improvements that we've also realised this year.

So we are progressing well on the things that we control, but obviously the mechanical impact of the bean price, especially on our inventories, as you will see, has been quite impactful.

Now before going into the results in detail, I wanted to share a bit more context and background on the market of cocoa and the pricing. We've seen all-time record cocoa futures prices over the last 12 months, driven by supply and weather challenges, as Peter has been talking about, reaching a peak in late April. We've seen some recent signs of stabilisation, as you can see in the chart, but still the year ending was at the price of £5,332, which is still 80% higher, 8-0% higher than when we started the year.

So despite some normalisation, prices do remain well ahead of the long-term averages, and this has impacted our performance in a few ways. First of all, free cash flow, I will talk about that later. Profitability largely protected through our cost-plus model. And top line, basically two things. First of all, it's a customer mix shift, so private label performing better than large food manufacturers. You see that in the Nielsen data as well, but also in our business. And also a channel mix effect, where we see a greater resilience and strong performance of our Gourmet business.

Moving to the demand side, we are, and Peter talked about it as well, we are operating in a highly attractive and growing category, it has been resilient over the last 50 years through crises, wars and everything, because there are some clear favourable dynamics underlying that, that are still there.

First of all, there's emerging markets, and especially Asia, where we see a lot of new consumers entering to the market, a lot of new product applications, which is already helping to generate our growth, as we've seen already this year in the region. Second, chocolate is being used in a broader range of product categories as consumers continue to prefer the taste of chocolate over other flavours, protein bars as an example. And finally, the trend of premiumisation and innovation, sustainability is a big one and continues to be a big one for Chocolate.

Having said that, in the short term, we do expect to see continued market pressure, largely related to our customers pricing through those prices to their retailers. We do expect anything between 5% and 15% pricing hitting the market after, as we've seen last year, some general inflation, now it's really bean price triggered inflation, 5% to 15%, depending on the product category. These negotiations, discussions taking place as we speak, they will go into the start of the next calendar year, and some of that might have a temporary knock-on effect on our business.

To be clear, we do believe that first of all, this is going to be a temporary effect for the reasons that I mentioned. And secondly, we're also convinced that we are well positioned, as Barry Callebaut, to face this, considering our customer mix diversity, and also the diversified channel, gourmet, food manufacturing, product applications, chocolate compound, and so on. So we are well armed to go through that, but it's fair to say that short term, we expect some pressure on the market.

Now, looking at our results, and first, volume performance in more detail. Our sales volume was year on year flat for the full year, which is in line with the guidance that we gave you in the beginning of the year. Chocolate grew slightly in a declining market, and we saw positive growth in the first, and you can see here by quarter on the page, we saw positive growth in the first half of the year, and a slight decline, and especially phasing, in the second half of the year.

And there's a few reasons for that. One, between Q3 and Q4, there was a phasing impact in Gourmet, where customers purchased ahead of time in Q3, with the price increases - the significant price increases that we passed through between the quarters. So there was some more purchasing in Q3, and then we saw the reverse of that in Q4. So there's a Q3, Q4 phasing.

And secondly, we stepped up our interventions from a quality perspective. You know, we took proactive action on specifically a site, Toluca site in Mexico, to temporarily shut it down after some incidents that we had.

Our teams have been working very closely with our customers, of course, to minimise the impact on their business, leveraging our broad network of factories that we have across North America. Still, there has been some impact on Q4. We also expect still a bit of impact in Q1 of this fiscal year.

Focusing on Chocolate and by region, first of all, AMEA has been a strong contributor, growing 5.2% over the full year. It was double digit in the second half of the year as a total region, supported by India all year long. Very structural, strong growth. Also an improved performance in Indonesia in the second half of the year.

The growth was, if I forget about China for a second, I don't forget about China, but just for a second, we would have been, without China, we're double digit in the region for the entire year. So China has been holding us back a little bit because of the broader macroeconomic elements, as Peter has already been highlighting, which has been putting pressure on the food manufacturers in China.

Western Europe was solid at almost 1% growth, again in a declining market. The growth in Gourmet, the recovery in private label has been offsetting some of the pressure on food manufacturing. Central Eastern Europe saw a decline of 1%, 1.2%. These markets are often a bit more price sensitive and we've seen a more significant impact on the large global and regional food manufacturer customers.

North America reported minus 1.8%, driven by a slower demand by the large food manufacturers again, which are very prominent in the region. So we've seen an overall drop, more outspoken in North America because of that. Now our regional accounts and our Gourmet saw a very strong momentum, which made our numbers be better than what we've seen in the market overall, thanks to that Gourmet and the regional account performance.

Latin America, strong growth, continued 7%, the same messages as I've given before, Gourmet doing very well, Brazil leading the pack there.

Moving to profits and the EBIT bridge, recurring EBIT, as you see to the left of this chart, has been growing by almost 13% in local currencies. There's a number of drivers. First one, mix shift with a strong business in growth in double, double digit in Gourmet. Second, the first, BC Next Level cost savings. I will talk about those a bit more detail later on. Third, it also reflects the strength of our cost-plus model. Of course, passing on the increased, I'm saying of course, but it's important, the increased bean price, but also particularly the impact of the higher financing costs as we have higher debt to cover the working capital, we pass on the higher cost of debt, cost of financing to our customers.

Reported EBIT at the right of the chart was at CHF 446m. This of course includes the corrections for the one-off items for Next Level, CHF 258m, the big red bar on this chart. Important to realise that CHF 93m of that is non-cash relevant, which is impairment write downs that we've had throughout the year, actually mostly in H1. The other half, the other part, the CHF 170m, I will talk about a little bit later when I talk about Next Level.

To net profits, you've seen, or you still see on this, or to the left of this chart that our EBIT in local currencies increased by CHF 84m year over year. Our recurring net profit in local currencies to the right of this table went down, slightly down by CHF 9m to CHF 434m. Now, this net profit line includes, of course, the full impact of the higher financing costs that we have on our net debt.

And on that net profit, again, back to the drivers, the positive impact of what I explained before, the positive mix, Gourmet, the first – the Next Level savings were offset by two things. First of all, a longer pricing cycle that we have in Gourmet, so in Gourmet we price every six months, so we have price lists to distributors, which means that it takes a bit more time to price through the entire cost inflation to these customers. It's a question of phasing, so there's a bit of that.

Secondly, also relating to some of the higher quality and intervention costs that I talked about before, the actions we took and we are taking to significantly step up our quality discipline with higher testing, higher controls, and intervening thoroughly when we deem it's necessary to solve a hiccup, like in Toluca earlier.

BC, you know - we delivered - in short, I think we have delivered on the milestones that we set out for ourselves and Peter will talk a lot more about the whole programme and on the content of that, I will just talk here a bit about the numbers. We have delivered on the milestones so far. At the same time, we still have a significant journey ahead, but we're on track.

If I start with the cost savings, to the left of the chart, we have delivered CHF 18m of savings in fiscal 23-24, which mostly in the second half of the year, at a run rate of 15%, so 15% of the total of CHF 250m cost savings realised this year, which is what we guided at. Coming from planning improvements, we simplified the supply chain, footprint closure of the Malaysia site, a shift, partly a shift already to GBS, especially in North America with the opening of the centre in Monterrey, Mexico.

For 24-25, we do repeat our expectation to deliver 70 to 80% of that CHF 250m as a run rate by the end of the fiscal year. It is likely going to be more H2 weighted than H1 weighted, because some of those dialogues, social dialogues like in Belgium that are still ongoing, which obviously we want to respect fully and allow the discussions that are needed to get the necessary comfort.

On the one-time opex, we've been spending, you saw that on the previous page, CHF 171m, and this excludes the CHF 93m non-cash that you saw on the previous page, essentially on restructuring CHF 110m and then CHF 61m programme costs.

In capex, we have more than CHF 200m that has entered now the investment funnel, which means that these projects have been approved, they are entering the implementation phase. At the same time, considering the cash pictures that you will see later, but as you know already a little bit, we also have been very disciplined on the cash side, so we managed to keep the cash out limited to CHF 25m in the fiscal year. That also means that there will be significant cash out next year, which we estimate that - we plan at CHF 200m to 250m cash out on capex related to Next Level in ‘24-‘25.

Capital benefits, finally, we have delivered CHF 100m, again supported by these planning operational excellence initiatives, days of inventory improvement. If you look at our inventory value, you wouldn't see it, but I will come back to that, but we did improve the DIO through these initiatives, better planning. Next year, we have planned for another CHF 80m improvement, and that's then the next step to, if you remember, the CHF 280m capital benefits that we set out as a target for the total of Next Level programme.

Cash flow, our overall free cash flow for the year has been CHF 2.3bn, you can see those in those black numbers on top of the bar charts, so minus CHF 2.3bn, which is obviously quite a change, a brutal change versus what you've seen in the previous years.

Now, we need to look at the different components to really understand what's happening there. So, if you look at the red bars on the charts, this is showing our strong operational free cash flow. So, coming from the EBIT delivery, coming from the days, inventory, payables, receivables, evolution, so what we really control operationally on a day-to-day basis. We've seen there that we deliver almost an CHF 830m operational fee cash flow, which is well ahead of the last years. Again, thanks to the initiatives that I've already been mentioning, the first benefits of Next Level and the discipline we had on that area, considering also the pressure on the cash flow in general. But what we controlled, I think we delivered quite a good result.

The brown bars on this chart is the investment capex, Next Level spend, which increased, of course, as we ramp up our investments in Next Level. Next year, this bar will also be higher, still even higher than this year. It's the investment plan of Next Level, no surprise, we're implementing as we proposed.

But the key driver, obviously, is the black bar at the bottom, which is the impact of the bean price on our working capital and essentially inventory. I'll come back to that. You will see it's almost the easiest way to explain this is actually inventory. But it's a CHF 2.8bn impact of the bean price, which explains or more than explains the full correction that the full CHF 2.3bn that we have on our free cash flow in general.

So let me spend a bit of time on that in the next two pages. We are, and we talked about that before, we are operating as a company with a long inventory cycle business. There's easily 12 to 18 months in between the moment that we source our beans in Africa or any sourcing country and the moment that we basically sell those beans in chocolate to our customers. So 12 to 18 months.

With the sharp increase in those bean prices, as we've seen, the plus 80% over this year, the value of our inventories has obviously increased significantly. We'll see that in the next page.

Second, as we hedge our long bean exposure with short futures to protect the cost-plus model, we face, if the cocoa bean price increases like this year, we face very important margin calls that negatively impact our cash flow. And that's already the case before the beans actually enter our inventories.

Third, and that's a particular thing for the second half of this year, the initial margins. Initial margins are the amount of money that the futures exchanges ask, require to pay up front when you buy or sell a cocoa future. Now this has been, and you can see that with the chart to the right, that's the evolution of that initial margin and the line in the middle is between H1 and H2. In H2, that requirement, that cash out multiplied by a factor of nine. And that's, again, it's linked to the volatility of the exchanges. You can imagine that will go down if the volatility fades out. But at least the peak of that has been certainly in H2. And that's a key driver of what we've seen happening in the second half of the year.

A final element to mention on this is the fact that we sometimes use liquidity swaps. I've talked about that in the beginning of the year, in the middle of the year. We do that to better allocate our cash flows to the business cycle that we have, that we can phase some cash out further at the moment that the revenues from the higher bean sales and high chocolate cost sales come in. So it's a question of phasing. We also did that in this fiscal year. Actually, we did it also the year before. But this year, we also did it for the year after, which means that there will be some cash out coming in the next fiscal year. The first half of next fiscal year, which is linked to the liquidity swaps and the phasing we've done on that this fiscal year.

Now, net debt. The increase of our net debt as a result of the higher working capital needs can be actually fully explained by the higher value of our inventories. I mean, this is what this page is trying to do. You can see on the chart to the right that our total inventory value has increased by CHF 2.7bn

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to 5.6bn. These are big numbers. So because of two things. I mean, many things. But you can see the red bar is the stock of cocoa beans, the beans itself. The brown piece in the bar is the finished goods and semi-finished goods. So both of these, of course, the chocolate - the cocoa component in the chocolate has also gone up. So you see a CHF 2.7bn increase of the value of our inventories. You know this is corrected for this - this is not about market-to-market valuation. This is not about volume. This is a value effect CHF 2.7bn. And you see our net debt going up by CHF 2.5bn. It's pretty simple and clear to see that this increase of net debt really sits in the value of our inventories.

Now we have, as you know, we've been proactively securing our liquidity throughout the year. We raised over CHF 2bn with the three bond issuances over the years in time to make sure that we can continue to focus on executing our Next Level plan, continue to focus on playing our strength on the bean sourcing. And we provide the liquidity for that.

Our capital allocation priorities continue to be twofold. First is to drive growth with a focus on the four strategic pillars that we have – that we are executing since we announced the Next Level plan, Outsourcing, Gourmet, Specialties, and Asia. And second, to execute our Next Level transformation, which is going to deliver important savings for this business and an important step up in our EBIT level. Those are the two big priorities we'll continue to focus on in terms of our capital allocation.

When it comes to the dividend, which this year will be CHF 29, we are also committed to ensuring this is not lower than the '22- '23 level during our transformation programme.

It is our intention to focus on deleveraging. Obviously, we had a step up in our leverage because of that bean price effect, as you've seen. Obviously, over the midterm, it's clearly a very big focus by us to bring that down back below the two times, working on pricing, working on making that step up in EBIT and net profit as Next Level is targeting to do. Of course, the speed and the quantum of getting there at that point is going to depend as many things these days on the bean price.

And just maybe to close off, and then I hand over back to Peter, a bit more on the free cash flow expectations for next year, which is not an easy area to just understand and model. We do get that. There's a number of moving parts to take into account.

First and foremost, of course, is the bean price development, we've seen this year, it's a massive driver of the free cash flow. We do hope to see some relief in the bean price over the next months. However, we still see and expect the bean price not to get anywhere close to the historic levels that we've seen over a year ago. So that's going to continue to be a driver of the free cash that we have.

Secondly, we will see some of the fruits, continued fruits of the BC Next Level Initiative with an CHF 80m Next Level capital benefit to come through next year. The same time, I have talked about that, CHF 200m to 250m capex cash out next year in the context of Next Level.

As mentioned earlier, we use some liquidity swaps in '23- '24, which will have a sizable cash outflow also next year. And finally, from a phasing perspective, it's good to keep in mind H1, H2. H1 is the peak season, that's where the inventory levels are usually higher - are always higher than at the end of the fiscal year. So there will be some phasing on the cash flow for next year from that front as well.

That's what I wanted to share. Happy to have questions later. But on that note, I will hand back to Peter to go a bit deeper on the BC Next Level.

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BC Next Level Update

Peter Feld, Chief Executive Officer, President of the Executive Committee
Great. Thank you, Peter. And maybe to give you a bit more background on that, and we've said that before, and Peter said that just before, the first thing is we're confirming the CHF 250m synergies dropping into the bottom line.

And in addition to the financial benefits that we're delivering with BC Next Level, we're building better capabilities. I think that is, in this time of cash constraint, obviously highly important. Better finance visibility, better transparency around the world with our new setups that all of finance, as an example, is reporting to Peter for the first time in the history of Barry Callebaut. This is actually good because now we have all the numbers, and we know what's going on in the company. So that's the first good step. Now this needs to come at the push of a button, and that's the work that we're doing with Next Level.

The investments that we're doing, CHF 500m net, will largely go against areas that matter most to our customers, which we talked before, value, service, sustainability, and quality. The team has delivered important elements.

We've closed social plans in six locations, as you may be familiar with. These are legal entity-based locations. Peter talked about Port Klang that we shut down in Malaysia. We've also shut down already and completely resolved the discussion in Norderstedt in Germany. We have announced Intra, and we're working with the Works Council there to close the agreements. We have completed agreements in Poland, in the Netherlands, in France, and in Halle in Belgium. And we're waiting for the Wieze negotiation to actually, hopefully, get resolved for the end of this calendar year.

We have stepped up, as Peter has also mentioned before, significantly the work on quality, and we'll speak to that in a separate slide. We have launched BCOS. It is something where I got trained as a young plant manager in Procter & Gamble a long time ago in how to really step change agility and effectiveness in manufacturing operations. That's what we're now launching in Barry Callebaut throughout all of the 60 factories.

Vamsi, together with Clemens, have launched our new Centre of Excellence for Compound in Singapore. So we have a new R&D hub in Singapore specifically designed to power our growth in Asia. As Asia, and you may know that, is far more a compound market, and we do have excellent opportunities. We shared that, I think, in the half-year results with the super compound solutions that we have. There are great tasting chocolate solutions in the premium segment of compound. The team there is well underway to get that going.

Amr Arafa has used the opportunity with the footprint in Singapore to also create a centre for us of excellence for AI. We have already with Choc GPT started a little pilot where we want to power our organisation at the point of sales with intelligence, and that's what we're doing there. We bring, you know in a very simple way, tools together and intelligence together for our commercial leaders when they go literally into a customer meeting. What matters for their consumers? How do we really power the brands of our customers? That's the journey that we're on there. So very important elements, new Centre of Compound Excellence and AI.

We've also completed nearly our EUDR. We will be completely ready by the end of this calendar year, by the end of December. You will have seen that the EU has actually created another year of transition, simply for the reason that the industry hadn't been ready yet, with the exception of Barry Callebaut. So we're well underway on that. We're having currently discussions on how do we help others to go on to this journey? And as Peter was explaining the cash flow situation, we're often having a discussion about how our smaller competitors actually managing the situation from a cash perspective and from a sustainability requirement perspective. So well underway with that. We've made significant progress on that.

Also launched our net zero programmes, and we're very clear on our digital transformation that Amr Arafa is leading around the world.

Let me say a few things on quality. We will only have the right to win market share from our customers, especially the large ones, if we're doing a better job than they do themselves. And we need to really get going on that. And the whole quest for best is something that we're bringing throughout the organisation and Barry Callebaut. We can't stop short in that journey, which is why, with a tone from the top, from myself, from Peter, from Clemens Woehrle, who heads up all of our global end-to-end supply chain, we take decisive steps when we feel uncertainty in certain situations.

Exactly the point was Toluca, where we shut down the factory, completely rebuilt the factory, cleaned it all up, have it up and running already now again. But we want to do the right things and just thoroughly resolve things once we see issues. That's what we're doing.

Just to give you some numbers, we have now 100% positive release rolled out through all the factories. There's a few, maybe two or three, plants where we actually have a through-the-wall pipe to our customers. And we're currently in discussion with our customers to cut that and actually have tanks implemented to ensure 100% positive release also for those locations. The rest worldwide is done.

Partially temporary measures, as Peter was sharing earlier. Tanker trucks on wheels with warming - with electric heating on the tanker trucks, obviously going into permanent installations as we go into the next year with tanks on the road right now to get installed in our factories worldwide. We're taking really decisive steps here.

Our testing frequency globally is five times higher versus before. We've really taken that to a different level. We also find more, one could say, but that's the consequence of us really having a totally different rigor on it. And the volume that we're testing by sample is up 35% on a global level. So the rigor that we are applying in Barry Callebaut to really safeguard our customers and their brands, and their consumers is unseen. And customers are widely recognising that.

We're now building agility into it, because when we find something, we need to give them product from another factory, which we couldn't do before. So Clemens Woehrle has a big journey underway to also build that agility into our network. And with the SKU reductions that we have already delivered, we now can also do that. So tone from the top, very important.

The next step forward, and it's already happening, is a culture baseline assessment on quality and also food safety. Capex investments are well underway. As an example, we're implementing auto samplers to have a far higher statistical robustness in our sampling process globally from any production line that we have in Barry Callebaut. And obviously, we drive digital end-to-end solutions to then have the right transparency of these results for our customers at their fingertips.

Peter was already talking about the big step to simplify the work in Barry Callebaut, standardise the work processes with the establishment of our Global Business Services. The teams have done a great job to expand our Lodz operation. And we will, in the next literally nine months, transfer a lot of jobs from Western Europe into Lodz as well as into Hyderabad, which we've just started up in India. Peter, Clemens Woehrle, Amr Arafa, Jutta, we were all down in Hyderabad two weeks ago. It's great to see that happening.

We were invited by Novartis. I think I can say that. I had already thanked the CEO of Novartis, who have an 8,000 people, GBS in Hyderabad since 20 years. And it's great for us to now put the first nucleus into that location.

Monterrey in Mexico, and Peter talked about that, was a completely new site for us, where we have already 120 people, roughly, that have been trained in North America. And a lot of the roles have already come from Chicago and from Canada into Monterrey as we speak.

Put a few numbers behind that. The teams have analysed and mapped 650 different work processes in Barry Callebaut that had not been standard before. Many different ways, order to cash. Many different ways in all the processes that we had. All of that has been mapped already. We had more than 50 strategic workshops across the functions to think through, how do we wire up the work between the countries that are selling to customers and the enabling centres that now in a 24-7 operation can service our customers but also our own organisation and have a better impact and efficiency in Barry Callebaut. Huge step forward.

In Western Europe, the transition is happening. As I mentioned before, we have many works council agreements already in place in Europe. Wieze is pending, hopefully coming soon, and then we will start sequencing in a good sequence to actually hand over that work into the GBS infrastructure.

So, massive investments in changing really how we deliver service for our customers and also in the mindset that our organisation has. Really going from an ingredient supplier to the recognised chocolate solution advisor for our customers. That's the journey that we're on.

We're boosting understanding of what our customers need most and focus on that. We're building best-in-class mindset and organisational capabilities and connecting that digitally. That's the overall journey that we're on.

Importantly, and some of you have asked me before, okay, how do you reward your organisation? We now have put strategy into rewards. We just had our Board meeting and the NCC on Monday this week where we agreed that the net promoter score as well as sustainability will go into the long-term incentives of our leadership. So, you can say the top 150 in Barry Callebaut. So, we're really putting strategy into rewards to make sure that this is wired up in the right way and well appreciated.

So, that's the journey on that we're there. A lot has happened. A lot has happened when you think through the hardwiring and standardisation of the enabling functions. Everybody in finance reporting to Peter, which wasn't the case before. Every factory reporting into Clemens Woehrle, which wasn't before. All of digital reporting into Amr Arafa, which wasn't before and so forth.

We have defined with the organisation in the last year RACI, which is how we work in Barry Callebaut now that we have a different organisational setup, and we have a series of rollouts and discussions at different layers of the organisation to bring this to life. How do we make sure that we empower people that are closest to the job so that they know that they can decide certain things? But on the other side, we also need to have governance and making sure that we want transparency and standardisation. And that combination is the balance that we're bringing forward.

Peter talked about the simplification we've already done. 25% of the SKUs are already out of the system. That is a massive reduction in complexity in Barry Callebaut. Quality I've spoken to in detail. Leadership team in place, as you know. We have several Works Council discussions that are completed. One major one is pending, which is Belgium. And then we have obviously discussions still with our colleagues in Intra, Italy that is still supposed to come.

In ‘24- ‘25, we will bring the GBS to life, continue to work on the factory network and have the other elements that you see. And then in ‘25- ‘26, really digitise and really bring all the digital capabilities of Barry Callebaut to life.

As we're doing that, we're thoroughly taking care that the organisation of Barry Callebaut can follow this transformation. So under Jutta Suchanek's leadership, we have rolled out our first what we call pulse check testing you know if the organisation understands where we're going with the company, why we're doing it and how we're sequencing it in December last year. We've done another one in April, in spring this year. And we're right now in the next one to actually constantly, every four or five months, check is the organisation really understanding what we're doing in Barry Callebaut and are they following us.

As you will expect, there are still many people on the payroll today that already know and have even been informed that we're reducing their roles, and they may not have a future. So we expect the next one to carry downwards in trend rather than upwards. But I do think that we already had a great first kick-off with the 250 leaders of the company that I mentioned earlier in Rotterdam that see the new momentum coming as we go from step one, building the foundation with Next Level, to now step two, really unlocking the customer experience for our customers that they really understand that and pushing forward.

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Outlook

Peter Feld, Chief Executive Officer, President of the Executive Committee
So with that, let me say a few words to the outlook. We're confirming our trajectory that we had already mapped to you a year before. We think, and Peter has spoken to that, in a difficult environment that we will have flat growth with slightly positive growth in Chocolate into the next fiscal year. It is mainly second half year weighted. That's the outlook that we're thinking here.

We, on the other side, project a double-digit EBIT recurring growth in a volatile market environment as we see more of the benefits from Next Level rolling through and the capabilities that we're building with it. This excludes the BC Next Level one-time cash-relevant operating expenses, and we do think there's about CHF 230m in net interest costs also coming through.

When we're done with Next Level and post the digitisation of our business model, we confirm also our long-term growth objectives that will go into low single-digit plus to mid-single-digit in volume growth and mid-single-digit plus to high single-digit in EBIT growth. We're building a better scaling machine, both for EBIT generation as well as for cash generation, and that's the journey that we're on here.

So, just in concluding, confirming our growth strategy, the four pillars that we've mapped to you, the company has demonstrated resilience in the toughest ever year, I think, as Peter was saying, his own personal impression of the last 12 months. Not just doing a transformation, but also having a cocoa environment that is absolutely unprecedented.

We have achieved major milestones on our transformation journey with Next Level. Many things have already been prepared and will be going into action, as we've seen, and next year we'll obviously continue to navigate very disrupted market challenges and as we move into the second year of Next Level.

So, with that, thank you very much and very happy to take some questions.

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Questions and Answers

Peter Feld, Chief Executive Officer, President of the Executive Committee
Yes, we have something to write.

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Sophie Lang, Head of Investor Relations
Yes, you should have some paper there. So, I think we'll start by taking questions in the room and then move to any on the webcast. So, if you're in the room, please raise your hand and someone will come around with a microphone to ask your questions. And when you guys are ready, maybe we start with Joern at the front here Kaitlin.

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Joern Iffert, UBS
Thank you, Joern from UBS. If you allow me two to three questions, I will take them one by one. The first one is you've explained a lot what has happened internally, how you improve product quality testing, etc. Can you give us some more concrete examples? What are you doing in the go-to-market strategy, investing in regions like Germany, France, as general manager, salesforce team, etc.?

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Great question, Joern. So, let me just share a few things and remind you all about the structure that we've implemented. When we started our journey, we have implemented, as of January 1, 25 country cluster managing directors that we didn't have before.

A country like France, about 600m in revenue, didn't have a general manager running it. We actually did that for Gourmet from Belgium. From the regional headquarter, we did that for FM from Belgium. Same thing in Germany, 500m revenue, approximately, didn't have a general manager. Same in other places, like Canada, for example.

We now have 25 country cluster general managers that focus with their organisation. And I mentioned that earlier, that have built OGSMs, the Objectives, Goals, Strategies, and Measures, for those respective country clusters.

They also, Joern, to your question, have accountability for the headquarters of customers that are headquartered in their region. So, when you think about, for example, what can I say? You know, in the US, that's an easy one, right? If Mars is headquartered in Chicago, then obviously North America, Natasha, would have accountability for that account globally. And that is already in place, and that is the structure we're already working.

We have, on the other side, accounts, you know, that, and you may know that in BC, we had used the term GCAs and talked about the top eight accounts. However, when you think about our top 50 accounts, we probably do 60% of global volume in FM with the top 50 accounts. And we have a totally different segmentation already started to think through, what do we do for them?

I'll give you one example, Lotte, South Korean customer that operates with us since many, many years in Japan. They also happen to have bought a company in Poland and building business in Eastern Europe. We now really manage that on a global level, and we have a totally different customer intimacy to really work with those customers and help them on their expansion strategy going forward.

While we're doing that, there's new market entrants also. We have, you know, around the world, new opportunities to expand the footprint of Barry Callebaut and grow, share, i.e. get more, two of the three outsourcing deals. And I mentioned three that we have already landed. There's way more underway because we believe that these market circumstances that we have just mapped out to you, incredibly high cash requirements to operate in this environment, while sustainability requirements have skyrocketed with EUDR, but also with the expectations of customers, their retailers and others make the operating in chocolate so complicated for smaller companies. So we have a lot of discussions going on. How can we actually operate for more customers in that environment?

So the proximity and the intimacy that we have created by having these local players, 25 country cluster GMs operating with their customers that are in their region, but on the other side also servicing the customers that are headquartered in their region globally, already brings great results.

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Joern Iffert, UBS
Thank you for this. And then two quick technical questions, please. You said volumes flat for '25, global Chocolate growing. What is the underlying outsourcing assumption? Another 35 to 40,000 tonnes in the next 12 months?

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Well, look, I mean, I think we're still building this year, right? I mean, you know I mentioned with you that we're building up, especially in Western Europe. We're taking a lot of roles from all the countries in Western Europe to our GBS infrastructure. So there's a lot of shifting going on, which is why we're cautious right now to take on far bigger deals in one go.

So you know we're clearly having good discussions underway. And I would expect soon to be able to announce a few more. As we've said last year, we think we want to crank to 50, 60,000 tonnes additional volume per year. And that's a trajectory that we see the company operating on.

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Joern Iffert, UBS
Thanks. And the last question to the CFO, if I may, please. Interest costs. Why exactly going up so sharply again in '25 versus '24 while bean price is coming down from the peak? And also, when do you expect the free cash to turn more positive? Because you should get money back from the margin calls. I assume that '25 could be a positive cash flow year before one-off investments, of course.

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Yeah, well, we had about 80m interest cost increase over the year. But of course, that was backloaded, right? Because we did bond issuances starting in Jan and then in May. And obviously, the interest that we were paying on the cost of debt was higher at the end of the year than the beginning of the year. So that's why we still expect year on year, also next year, increase of our average financing cost.

Again, assuming - assuming that the bean price remains at a higher level. Of course, if bean price significantly goes down, we have significant cash in. We can start - and we have quite a maturity profile of our outstanding debt that allows us every year to make those steps as the market allows it.

But it's mainly, to your question, mainly the phasing throughout the fiscal year that makes it that for the average that we have, the increase, the 84, it's more backloaded and frontloaded in the previous fiscal year.

Sorry, what was the question on the cash flow again?

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Joern Iffert, UBS
When do you expect it to turn positive?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Well, we will have - I'm going to start with the bean again. Obviously, it's very much influenced by the bean price that we see. There will be some pressure still next year on the cash flow because of the 200, 250m capex that we're investing. That will be partly offset by the operational improvements, like we've done this year, but like we'll also do next year. There will be an impact of liquidity swaps, as I mentioned, that phases some of the cash flow through to next year.

So I think if you look at the profile for next year, we are targeting to have a positive in the second half of the year, but it's surely that the first half of the year, we will have a negative free cash flow. That's pretty clear. Again, all of that with the big asterisk, what's going to happen to the bean price, of course.

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Andreas von Arx, Baader
I have three quick questions on the results and then a bigger one on return on invested capital. So maybe I start with the three quick ones. Could you quantify the effect on adjusted EBIT that passing on you know the higher financing costs from higher inventory had on that EBIT? As I understand it, you immediately passed that on with the – the cost through – the cost-plus contracts. How big effect was that last year?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
As I mentioned, we have about 80m year-on-year increase of interest costs in fiscal '23- '24. The strong majority of that has been passed on. There is a bit of phasing, as I mentioned in the presentation with Gourmet, as we have a six-month cycle of pricing with the price list, it takes a bit longer to pass on the bean costs, but also those kinds of costs.

So the strong majority of the 84, and it's important to, a little bit back to the presentation, if you look at the net profit level, the different components, positive impact on mix, positive impact of Next Level savings, first Next Level savings, and negative impact on that Gourmet phasing, as I said, pricing over six months, and some impact from the quality investments that we've made. So those are the moving components.

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Andreas von Arx, Baader
So all things being equal, that's like a 60m boost.

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
I'm not going to call out the specific number, but the strong majority of it is passed on already.

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Andreas von Arx, Baader
Could you roughly split the 2.8bn- you had effect on - how much is that the margin and that interest swap, means that, I don't know, 10% of that 2.8, or any kind of indication how big these non-inventory effects are?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
You talk about the 2...

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Sophie Lang, Head of Investor Relations
The free cash flow.

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Andreas von Arx, Baader
Yeah, the 2.8bn effect, which is you know higher cocoa bean price, higher margin, and higher interest swap. So are the two latter, are they like more than 500m, or is that already too much? Just very rough.

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
The liquidity swaps you're looking at, right? You're looking, well, okay - the 2.8 is, there's a very complicated story I can tell, or there's a very simple story. The simple story is the inventories. And if you remember the chart we've shown, there's a significant increase of the value of the inventories of the beans. There's significant increase of the value of the semi-finished and the finished goods in Chocolate, the cocoa component. So that is driving that. That's driving 2.8, which is explaining all of the free cash flow evolution that we've seen.

Of course, there's other components in terms of payables, receivables that are a lot higher. But again, I'm overly focusing on the inventories because if you look at the days of those three elements, we talk about 30, 40 days of payables and receivables. We talk about a year to a year and a half of inventories. So whatever impact on inventories amplified massively versus the other levers.

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Andreas von Arx, Baader
I was just curious, that effect on, let's say, paying higher margin amounts for the exchange, you know.

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Yes.

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Andreas von Arx, Baader
Is that really relevant compared to the cocoa? You know, when we now model, right I mean, the cocoa we have a view on how the cocoa beans will go. And at some point of time, you will have that positive effect from the margin. So how relevant is that? Is that hundreds of millions or...

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Of the initial margins that we had in the second half, right? I mean, it basically would make your job not easy. It would basically mean you forecast volatility because it's linked to the volatility in the market. And we've seen already a bit of a correction on that recently, that there's less cash out because the volatility in the market has come down. But it has really been what we've seen in H2. Those initial margin requirements are really linked to the volatility in the market.

Now, as that would nuance out, we would, of course, recuperate and not have those kinds of effects. And I know I'm only half helping your question, but it's a very complicated - it really is about forecasting the volatility of the market.

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Andreas von Arx, Baader
Okay. And did I get that correctly, that you do not plan to have any BC Next Level costs in ’25, ’26? So end of next year, BC Next Level restructuring costs, that's the end of next year, that's over. And afterwards, it's only the benefits coming?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
No, no, there's still- Peter showed that one slide about the net 500, which is a combination of opex, capex and capital benefits.

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Andreas von Arx, Baader
But the opex side seems...

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
On the opex side – on the opex side, yes, we've now spent 170 in the first half. It's fair to say that on the opex itself, we will be spending the majority in the first two years, which also makes sense, right, that we do that. So there will be some still in the third year, but this year 170, next year about 100, which is getting close to the 290 that we've been guiding.

Now, the individual components within the 500 might shift a little bit up and down. I think we might do a bit more one-time opex. We might do a bit less one-time capex. We will do more one-time capital benefits. So there's a bit of moving targets, of course. But the important thing is that we continue to see the savings, that we continue to see the net 500.

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Andreas von Arx, Baader
In your Annual Report, when you point to the return on invested capital that you calculate at 6.6%, you mentioned a normalised tax rate. What's that?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Yes.

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Andreas von Arx, Baader
Is that 20% or...?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Yeah, we've had this year, if you look at the tax rate we've been reported, we've been at 20.1% this year, which has been worse than last year. Now, the difference between last year 17% reported tax rate and this year's 20% is really related to the non-tax-efficient one-off investments that we've made in factory closures, Next Level related.

If you look at recurring tax levels, we are at 15.2% this year versus 17.2% last year or 15.1% last year, because we've had positive effects from, first of all, the mix of profit before tax and secondly, some positive effect of the Swiss tax reform from 2020.

Now, the last few years, we've been trailing around 15% to 18% recurring tax rates. Now, we do expect this to go up a bit in between 17%, 21% over the next years, because of the impact of the OECD Pillar 1 and 2 and a bit more of an uncertain tax environment. So, we do expect that this year is quite strong. If you look at the recurring tax rate, we do expect that to go up a little bit in the next years.

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Andreas von Arx, Baader
But for the 6.6% ROIC calculation, you used the 15.1%?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Yes, we use what we have right now, yes.

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Andreas von Arx, Baader

Okay. So now, if I wanted to, let's say, if I make a rough calculation, so you move from your current reported EBIT, which is the base of the 6.6%, to the 850 to 900m EBIT that you're guiding post-transformation, if I'm correctly - take that kind of tax rate and invest the capital you had to get to 6.6%, you know, that might be a bit higher given the cocoa price is higher, given capex. I get to an ROIC, which will be around 10%. Is that kind of realistic?

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee

Well, you went a little bit fast with your calculation. I'll give you my perspective of what we look at. I mean, the ROIC for this year has been the recurring one because we need to distinguish a few elements, right? The recurring ROIC has been 11% this fiscal year, coming from 13.1% last year, and that 2% is really related to the bean price. It's a bit related to Next Level as well, but it's been very much related to the bean price, the working capital, the inventories requirements for us, and the industry, right? To do the same business as before. So for the total industry, that's higher.

ROIC going forward, you need to know that we calculate this ROIC as an average over two years, which means that also next year, we'll have an extra year of bean, assuming that the bean price stays at the higher level, right - we will have an extra year of bean price, capital requirement investments. So the ROIC next year will also be lower because of that.

Now, it's a very important metric. Obviously, we have been, as Peter was saying, we've been running through our midterm plans in quite a lot of detail, of course, by cluster, by country, but also overall in terms of liquidity, cash planning, leverage, ROIC. We are clearly focused on that. We are doing the necessary things in terms of pricing, in terms of, of course, the delivery of Next Level savings, step up in EBIT.

We are still going to an investment phase over the next two years, which is why you will see that pressure on it. But afterwards, we will go back to the levels of ROIC that you've seen in the past.

The one thing to note is again, pardon my French, I'm talking about the bean price again, the speed and the pace at which that goes, it's still very much depending on the bean price because at higher bean prices, the industry is simply requiring a higher level of inventories.

And now we're also working on that to see how we can reduce that. So there's lots of levers that we work on to get that back.

. . . .

Andreas von Arx, Baader

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But, you know, I mean, that's probably assuming that the cocoa price is way below 6,000 per tonne. So what is your ROIC post-transformation, if the bean price remains the same?

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Peter Feld, Chief Executive Officer, President of the Executive Committee
No we're not guiding to that.

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
No, we're not guiding for that today. Our assumption on the bean price is that, again, as I said, it's not going to go back to the levels that we've seen in the past. Anything between 4,000, 6,000 is probably a reasonable assumption. That's the kind of assumption that we work with when we do our calculation.

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Andreas von Arx, Baader
Okay, but just maybe, just very last remark, you know, just I'm pretty sure – I mean, this is part of your remuneration targets. So why not communicate things that are part of your remuneration with your investors?

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Peter Feld, Chief Executive Officer, President of the Executive Committee
So do you want me to take that? So it is going into the KPIs, and we have agreed with the Board of Directors to actually anchor that throughout the next fiscal year so that we can guide to it at the end of next fiscal year for the year to come or the years to come.

We don't do it today because we're in the middle of the biggest investment programme BC has ever done. As I mentioned earlier, we also see opportunities to further invest in digitising the business, really make data a key asset of Barry Callebaut as we really understand end-to-end what's happening from the farm to the customer.

And so that's a great opportunity we don't want to miss in the business model and the growth journey that we're on, which is why we're taking a bit more time before we actually come out with numbers on that.

But I mean, we anchored it already. It's already there. We need to define what is the right number for us and the healthy number for us to safeguard the long journey that we're on with BC.

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Sophie Lang, Head of Investor Relations
Any other questions in the room before we move to the webcast? Please go ahead.

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Unidentified Analyst
Hello, thank you very much. I have two questions. One is related to the latest political things. It seems that Donald Trump has won the election in the US. Can you elaborate if that has any impact, or this Republican presidency has any impact on your business in the US?

And if I may, the second question is about the compound chocolate. You mentioned that you want to develop that further. And as far as I understand, that's a cheaper way of producing chocolate because you're using instead of cocoa butter, other plant oils. And I was wondering if that means that there is a demand for, or an increasing demand for cheaper chocolate. And if you see more of a gap between you know cheaper versions. And also, since we are seeing this trend of the Dubai chocolate, for example, which is very expensive, if you see more of a gap between the two. Yes, and what does that mean for convenient chocolate products?

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Yeah, great questions. Let me just say that for the first one, I mean, we – you know we are a global business. We operate, as I always say, from Chile to China. We're on the ground. And so, that's the same thing in the US. So we continue the business and serve our customers in the US, whoever is in charge. I think for us, that will not change any of the undertakings that we have. In fact, I'm flying to New York on Monday. We'll have discussions with Natasha Chen, who has joined us as a Head of North America. And we'll jointly actually look at our new factory in Canada, which again has a good treaty with the US. So we don't think that there's going to be any shifts there.

Compound has a totally different dynamic. Compound is better in temperature stability. That's why you see far more compound in the Southern Hemisphere in general. We also make progress to actually have temperature - more temperature-stable chocolate, which the team has done a great innovation this year. And you'll hear more about that.

But we do believe that there's a market as 2.5 billion consumers are entering, especially in Asia, the market. There's a great opportunity to think through, how do you actually get them into the category at the top end of that, right? So we don't want to compete in the cheap compound area. That's not where we want to play. But we also you know have said in our OGSM for the Group that we're all about chocolate solutions. And that includes very clearly compounds. And it may also include non-cocoa products going into the future.

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Sophie Lang, Head of Investor Relations

All right, any final ones in the room? Then I think moderator, if you could please let us know if there's any questions on the line and go ahead, that would be great.

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Telephone Operator
Thank you. If you would like to ask a question, please press * followed by one on your telephone keypad. If you change your mind, please press * followed by two. When preparing to ask you a question, please ensure your device is unmuted locally.

We have a question from Alex Sloane from Barclays. Your line is now open. Please proceed with your question.

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Alex Sloane, Barclays
Yeah, hi, morning all. Thanks for taking the questions. I've got three if that's all right. The first one in terms of the volume guidance, the target for flat volumes overall, slight growth in Global Chocolate. I wonder if you could tell us what underlying assumption you're making there in terms of end market growth. That's the first one.

The second one just on free cash flow, just going back to it. I appreciate the colour on the moving parts and that the bean development is going to be the key swing factor. But could you tell us like today if bean prices just stayed where they are, given the other moving parts, where you would expect free cash flow to be for the year and whether that positive in the second half would be enough to offset the negative in the first half?

And then the final one, just on the combined ratio, unless I've sort of missed it, I don't think you've kind of talked much about that. Obviously, it's quite an unprecedented move up last year. What impact, if any, has that had on profits in the year just gone and do you think it might have in the year that we're in? Thank you.

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Yeah, let me just take the first one, Alex, on how we see the volume and the end market and consumer reaction to that. We firmly, as I mentioned earlier, believe that the overall consumption in chocolate will continue to go up and chocolate solutions. And we believe that because in all these difficulties around the world, I mean, chocolate remains the little treat you allow yourself on a daily basis and that's why we think this will continue to carry out very clearly.

What we see short term though is that, as I mentioned earlier, our cocoa prices in sourcing obviously have to somehow land with consumers. Our customers have discussions with their retailers as to how

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much is that. We think these are temporary discussions that they will be having given that the end consumption of chocolate will not change.

So we will, you know over the short term, we are anticipating that there are still disruptions going. You may have seen of some of our public customers that have actually made statements, we don't go away from chocolate. Instead, we want to lean in and retain the brands and actually have to focus on chocolate, which is obviously music to our ears. So we believe that will carry forward.

But we do think also that we will, you know, as we go into this next six months, nine months, we still have a lot of work to be done on Next Level as I mapped out earlier, which is why we guided for a weaker first half year and a stronger second half year. That's the journey that we're on there on volume.

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
All right. Maybe on the second end, just your last two questions, Alex, on free cash flow, I mean, you put your question quite specifically, right? Stable bean price, and you appreciate the moving components. If I go any further, I'll give you a specific cash outlook, which is, again, we're operating in a very volatile environment.

As I - there will have some - we will have pressure on the cash flow next year as well. Now on the free cash, not at all close to what we've been seeing this year. Again, assuming stable bean prices, but we are investing, right? 200, 250m in capex. We do offset part of that with the operational improvements. We have an impact, which is sizable on the liquidity swaps. And the rest really is going to be about the bean price evolution.

There are many areas where we can assume some things could go better. We've talked about the initial margins. If the volatility gets out of the market, that will help us as well. But allow me not to be too specific on this beyond those two components that I've shared quite specifically.

Combined ratio was your last question. We've seen a combined ratio today, which is slightly higher than what we've seen at high levels, but also already last year, which was slightly higher than last year, which is good in itself.

Now, I think with the central steering that we have from the cocoa division and also the global scope and reach, we are everywhere in every continent, which allows us to arbitrage, sell, buy across all the continents. It's something that we master quite well. So it's not the first area that I'm worried about or that drives our profit on a day-to-day or month-to-month basis. Because we're well-equipped in that. Maybe it's different for some smaller players. I don't know that. But for us, at least, it's not the prime driver.

I'm actually more looking at how are our pressing margins, how are actual production costs happening? There’s a lot of - when you roll over futures these days, it's a more expensive operation than it was a year ago. So those are the elements I'm more focusing on than on the combined ratio because at the end of the day it's a very important thing. You can get it wrong, but we are well-equipped and organised and have a good track record of managing that well.

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Sophie Lang, Head of Investor Relations
I think we have time for one last question on the line, if we have one more.

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Telephone Operator
Thank you. Our next question comes from Jon Cox from Kepler. Your line is now open. Please go ahead.

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Jon Cox, Kepler
Yeah, thanks for taking the call. Just to come back to the interest costs being sort of passed through and benefiting the gross profit level. Theoretically, as cocoa prices come down and you deleverage, I guess this will disappear, the advantage you've had this year and whatever you may get this year. Or do you think you can actually maintain some of that which you've had? So the question is, theoretically, will everything disappear, whatever the 60, 70m is this year and whatever it may be next year? Or do you think you can maintain some of that? That's the first question.

Second question, I think you mentioned going back to four, between £4000 and £6,000 for cocoa. Can you just confirm that figure I did actually hear?

And then just the last question, you keep mentioning the cost of liquidity swaps in FY26 and the negative impact on free cash flow. How much will that proportion be? Thank you.

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Peter Vanneste, Chief Financial Officer, Member of the Executive Committee
Okay, maybe I'll start with the first. You asked about the interest, which is obviously a driver, an important driver of what we've seen today on the EBIT. I mean, this is part of our cost-plus model, which worked both ways, right? We pass on bean prices, we pass on increased cost of financing to customers, we do the reverse if the opposite happens.

So the structural growth that we have in our plans, in our MTP are driven by mix, are driven by Next Level cost savings, are not driven by passing on of these kinds of costs, which is, by the way, a great thing to have, right? Again, I started my presentation with, we are a 700, we were a 659m EBIT business facing a 1.8bn cost inflation. So it's a very good thing to have, but it's structurally, it follows

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the evolution of the costs. We make our growth - structural growth on EBIT by doing the things like Next Level cost savings and setting us up for growth in the future.

Yes, I mentioned the £4000 to £6,000 as a GBP rate or market price. Again, we don't have the full glass ball, but that's what we're looking at.

And then you asked, yes, I talked a few times about liquidity swaps. I did have the question a few times also about liquidity swaps. It is like, yes, this is significant, as I said, it also depends on the bean price, right? The value of those liquidity swaps depends on what the bean price is at that exact time.

So I am not going to be more specific on that at this point. There are so many volatile floating elements into the cash flow that we're managing. I think if you remember our charts on containing control over the operational piece, what we control, that's what we do. And then we'll see what the - you know the evolution of the bean price is. We make sure that we have the liquidity, and we are proactive in terms of that. And that's how we try to manage the business.

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Sophie Lang, Head of Investor Relations
I think we're coming up on time. So let's close the Q&A there and maybe Peter, you'd like to make some closing remarks?

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Closing Remarks

Peter Feld, Chief Executive Officer, President of the Executive Committee
Now, look, thank you very much. I mean, as I mentioned earlier, I think, you know, a year ago, we announced a very tough measure, you know, to prepare Barry Callebaut for the future. You know, some of my colleagues have asked, is this the right time to carry on with this? I think we were very lucky that we started it because, you know, as the market is showing, the weather is not getting better. And we believe that as the size that we have and the number one that we are globally, investing in the future of this business will pay out over the long run. And that's exactly what we're doing.

So thank you very much for your questions and for your presence today. Thank you.

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Sophie Lang, Head of Investor Relations
Thank you.

[Applause]

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