Barry Callebaut

Trading Update
22nd January 2025

Barry Callebaut

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

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

Sophie Lang, Head of Investor Relations

Questions From

Alex Sloane, Barclays

Jon Cox, Kepler

Antoine Prévot, Bank of America

Joern Iffert, UBS

Telephone Operator
Hello and welcome to the Barry Callebaut conference call. My name is Alex, I'll be coordinating the call today.

If you'd like to ask a question once the presentation has finished, please press * followed by 1 on your telephone keypad.

I'll now hand it over to your host Sophie Lang to begin. Please go ahead.

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Introduction

Sophie Lang, Head of Investor Relations
Good morning everyone and welcome to Barry Callebaut's three-month Key Sales Figures conference call for 2024-2025.

I'm Sophie Lang, Head of Investor Relations and today's meeting will be hosted by our CEO Peter Feld and our CFO Peter Vanneste.

This is our first time doing a Q1 conference call and we'll have a presentation followed by a short Q&A session for analysts and investors.

I'd like to remind you that today's session is focused on our volume and sales update. We'll keep the Q&A session focused on discussion of those key figures. Finally, please limit yourself to no more than two questions in the Q&A session.

Before we start, please take note of the disclaimer on slide two and I would also like to inform you that the webcast and conference call is being recorded. With that I hand you over to our CEO.

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Key Highlights

Peter Feld, Chief Executive Officer, President of the Executive Committee
Thank you, Sophie. Good morning everybody also from my side.

The current disruption creates significant opportunities for Barry Callebaut to win in the market and emerge far stronger. We're here clearly to play to win.

It also reinforces the rationale for Barry Callebaut Next Level investment which is future-proofing our business and will be creating a far improved customer experience, better value, service, sustainability and quality for our customers.

When we spoke to you at our fiscal full year results early November, we had said that we expect a soft start into the fiscal year driven by the spring price increases that we saw in the cocoa market and the bean market. Since then we've seen a new major acceleration in excess of 70% in cocoa bean prices, which obviously creates a further impact and disruption on market pricing and demand.

In this environment our volumes declined down 2.7% in quarter one in line with the market which was down minus 2.6%. Mainly impacted by customer retail price negotiation, delayed orders and a bit of SKU rationalisation as we guided to in the November discussion.

When it comes to the full year '24- '25 outlook we are confirming our double-digit EBIT recurring growth in constant currency. At the same time given the impact of future market volatility we lowered our volume guidance to low single digits decrease.

In light of the bean price explosion which was clearly accelerated by hedge fund activity we have secured additional liquidity including the recent Swiss bond with CHF 300m.

We are also planning additional actions to increase returns on the higher capital base. While we welcome recent interventions from the ICE, the dominant market, we do think that we will be in a more volatile environment for longer.

In terms of crop overall supply is expected to be well ahead of '23- '24 but still below the year before that.

Given that at the same time we expect to see short-term demand softness from higher prices we are expecting a slight surplus in the bean market in '24- '25.

As said the current environment underpins our Next Level investment strategy. In quarter one we again made further relevant progress on implementing BC Next Level, including the important completion of all social plans in Belgium, progress in our negotiation regarding our site closure in Intra Italy, the launch of our new R&D headquarters for compounds in Singapore, progress on establishing our end-to-end planning excellence and further relevant improvements regarding our quality systems and culture.

With that let me hand over to Peter our CFO.

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Financial Update

Peter Vanneste, Chief Financial Officer; Member of the Executive Committee
Thank you, Peter, and good morning everyone. Given this bean price development since the start of the fiscal year, the industry has seen a further impact on working capital requirements. We've therefore secured additional liquidity to address this in addition to the financing actions we took already proactively last year. Specifically a successful Swiss bond launch of CHF 300m last week, a €1bn bridge term loan and an additional revolving credit facility of €620m.

Now given the higher level of working capital that our entire industry is now working with we see it as extremely important that we act to drive returns on the higher capital base that we now have. Specifically we're planning on how we can adapt our pricing and commercial strategies, and we hope to be able to update you on our plans here in more detail in a few months.

Similarly we're also looking at how we can adjust and optimise the long inventory cycle we have. And of course we will also benefit from the EBIT and cash step up that comes from our BC Next Level actions as already announced.

Now what we're seeing in the market at the moment is a short-term pressure on demand with a deterioration in the most recent Nielsen data to minus 2.6%. Compare that to a minus 1% over the past year. This decrease comes as customers increase their prices to retailers by about 10% year over year in relation of course to the cocoa bean price acceleration we saw several months ago. Mainstream players came under most volume pressure while premium brands gained share. The recent bean price spike means that further pricing will be taken in the chocolate market.

With that customer retailer negotiations have sometimes been challenging which in some cases resulted into products temporarily unavailable on the shelf, meaning consumers could not purchase them. In some cases also there has been some shift in promotion plans to temporarily focus on non-chocolate categories.

The other important trend we've seen is customers delaying ordering from us in anticipation of lower prices.

But importantly everything I just talked about is short-term. Mid and long-term we are as confident as ever in the attractive growth opportunities for the resilient Chocolate category and to resume the growth that we've seen over many decades driven by emerging markets increased chocolate applications and demand for innovation and specialties.

Now going into the quarter one results in more detail with volume growth by product group you see that in our largest segment with food manufacturers customer retailer pricing negotiations some short-term consumer reaction to higher prices and SKU rationalisation impacted growth. As I also just mentioned customers have been delaying orders which has a knock-on impact.

Gourmet has seen a small volume decrease impacted by two factors. Firstly product availability in North America was somewhat limited due to prioritisation following the Mexico quality intervention and secondly the effects of our next level SKU rationalisation as we anticipated. We reached the final stages of this important SKU reduction project and that obviously - that also played a role on this category particularly in Western Europe.

Switching to global cocoa the demand for cocoa powder remained robust and the business was able to capture some customer opportunities. Cocoa liquor continued to be impacted by the supply constraint environment that we're all operating in.

Now looking at Chocolate regions now volume development in Western Europe was partly impacted by the high base of comparison with a large one-off contract in the prior year same quarter. Excluding this the decrease was more in line with the declining markets impacted here by customer retailer negotiations and the effect of SKU rationalisation as I talked about in general terms before.

Central and Eastern Europe has seen negative growth given the lower volumes for large global and regional food manufacturer customers especially in Turkey.

Volume in North America has decreased by much less than the overall market contraction so while we've seen weak consumer demands impacting food manufacturers in the regions, our regional accounts have performed well.

Latin America saw a strong volume growth at 13.2% up. Brazil was the key contributor to this growth with particularly strong momentum in Gourmet.

And volume growth in Asia, Middle East and Africa was plus 6.4%, again also here well ahead of a declining market. Growth is actually double digits when you exclude Greater China as Greater China remains challenged due to the overall economic slowdown which puts pressure on large food manufacturers in several categories.

The cocoa bean price acceleration since the start of our fiscal year is creating a further temporary impact on market pricing and market demand. And in that context, we have revised our sales volume guidance for this fiscal year which is now expected to see a low single-digit decrease.

At the same time we reiterate guidance for double-digit EBIT growth on a recurring basis in constant currency. And on that note, I will hand back over to Peter to conclude.

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Summary

Peter Feld, Chief Executive Officer, President of the Executive Committee
Thank you, Peter. While we focus with Barry Callebaut on the short-term operational priorities and delivery of our Next Level investment programme in the current environment, we see significant opportunities to unlock sustainable profitable growth and value creation in the future.

Mid-term and long-term we are as confident as ever in the attractive growth opportunities for the resilient Chocolate solutions category driven by emerging markets, increased chocolate applications and demand for innovation and specialties.

The current environment underpins our strategy for Barry Callebaut and while we clearly see some disruption right now, we are playing to win and setting BC up well for the future.

That concludes our presentation, and we will now move to the Q&A session. I'll hand back to the moderator.

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Questions and Answers

Telephone Operator
Thank you. As a reminder if you'd like to ask a question please press * followed by 1 on your telephone keypad.

Our first question for today comes from Alex Sloane of Barclays. Alex your line is now open, please go ahead.

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Alex Sloane, Barclays
Hi. Morning all. Thanks for taking the questions. I've got two please. The first one just on the guidance could you give some context on what market volume you're assuming in your updated guidance of low single digit decline in volumes for Barry? And on the unchanged EBIT guide is there any phasing we should be aware of there, H1 versus H2? And I guess the lack of any change on the EBIT guide is that reflecting the fact that you had some buffer in the initial guide or is this higher tailwind from finance cost passed through? So that's the first one on guidance.

Second one on leverage have you got sufficient liquidity in terms of cash flow post the recent issuance if bean prices stay where they are today, and could you give us an update on where you see free cash flow for the year if bean prices stay where they are?   Thanks.

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Those were my questions. Thank you very much Alex. Let me start off maybe Peter if that's okay just on your question Alex on market volume expectations. Look at this moment obviously you know we're literally two months after the explosion of the bean price that started in the beginning of November. And obviously you know the entire market is looking at that and starting to appreciate that that will result in further price increases to consumers that will have to be taken at one point in time.

So we do think that you know Barry Callebaut is setting ourselves up well for gaining more market share going into this environment that's the play that we have said we want to aim at, but we obviously have to cycle through these increases that have occurred in the beginning of November lasting until today.

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Peter Vanneste, Chief Financial Officer; Member of the Executive Committee
Yeah, maybe shifting over to the second piece of your guidance question on EBIT so we indeed do reiterate double digit EBIT growth for the full year as we have guided to the beginning of the year already.

Obviously to your question there's a few moving parts within that. We have adjusted our volume guidance as you know which of course has a has a knock-on effect also on the EBIT side so that's one evolution of course. We do see within that context as I mentioned customer orders delayed as they wait for better prices.

The cost savings on the BC Next Level we are on track and as we said all the time already, they are a bit more - they are more H2 focused than they are H1 amongst other and especially also because we finished now the most of the - almost all of the social dialogues especially the very big one in Belgium which we're now executing at full speed and pace. So that is obviously a factor that is materialising but especially in H2.

And for sure also there's likely to be an interim effect also on the interest side because with the increasing bean price working capital requirements are higher, we're adding additional liquidity, which basically of course also means that the cost of debt will be a bit higher which will be another factor impacting the guidance that we made. So that's on the EBIT side.

You asked about liquidity, or I think that the second part of your questions was on liquidity. I mean we have been adding as I mentioned in the presentation a number of additional liquidity elements with the last one the Swiss bond CHF 300m last week.

We obviously - it's - we will do as we've done last year right, we track, and we are being proactive. We have a - we take a very prudent financial policy especially in the current volatility that we see in the market, so we take a prudent policy on that, and we track and monitor, and we'll be adding if and when needed. We will - of course again given that the bean price has such a direct impact on I would say debt but especially you know on the level the value of our inventories because that's where it sits, we obviously will adjust as we go forward as per our prudent policy.

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

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Jon Cox, Kepler
Yeah, good morning guys thanks for this session. Yeah, just to come back to the free cash flow you seem to maybe have dumped the question a little bit. If cocoa prices remain where they are where do you see your free cash flow for the year?

Maybe a different way to ask it is it as simple as looking at where the cocoa price you know for the spot market was at the end of August and then looking at where it is today and then assuming every £100 move in the cocoa price is adding you know 70-80m to a negative working capital. That's the first question.

And then just added to that on the sort of margin requirements and all of that type of stuff and the financing line this year, is that financing line this year likely to be close at 300m versus the 210m odd we saw last year? Thank you.

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Peter Vanneste, Chief Financial Officer; Member of the Executive Committee
Okay thank you Jon I'll take that. I wasn't trying to dodge a question I got a bit lost in the number of components on the on the previous question.

Yes, free cash - of course I mean as you mentioned that we see a very direct and immediate impact on free cash and debt that we need based on the bean price. You know the dynamics right there's margin calls immediately from the terminal market that we fulfil and that means that we immediately see that impact even before it hits our inventory, which is why we are proactive, and we go fast.

Now it's important - again I do want to reiterate that the impact we see is an increase of the value of our inventory. You've seen that last year the total debt increase has been more than explained by the increased value of our inventories. Inventory of our beans, inventory of our intermediate products, inventory of our finished products.

Now given the increase that we've seen in the last weeks obviously we are more negative on our free cash flow outlook than we have been in the year-end closing in November. That's a bit obvious, especially also because this spike happened in the largest bean buying period which is the main harvest period that we're now trailing out of.

You know we're not guiding at this point; we're not reporting at this point as you know on free cash. We'll obviously come back a lot on that in the H2 - in the H1 reporting.

+44 20 7243 7350
london@wtvglobal.com
World Television Ltd
18 King William street
London EC4N 7BP, UK

A lot of course will be defined especially for H2 on how the bean price will normalise over the next weeks. We do expect a normalisation down but again this market is very unpredictable. We've seen a normalisation in April. Let's see what happens now. That will determine for a long shot the actual cash out and that's in H2.

But you answered part of your question yourself. I mean I think it's indeed very practical to refer back to the rule of thumb to have an idea already right now. You mentioned this 70, 80m rule of thumb. It's not that simple but it gives a good indication. There are additional margins to go on top of that. We will be making some benefits on Next Level, capital benefits as well. But of course at these kinds of shifts of the bean price, that's a very dominant factor in how our debt and free cash evolves.

And then you had a second question. Margin requirements and financing costs right, you were asking. You will remember that in November we said we expect about 230m net interest costs which would be about 50m higher than what we've seen last year. So 50m increase of these interest costs. We will – again have some outlooks and forecasts, we're not going to elaborate on this this volume debriefing right now. But it's reasonable to assume that it will be higher than previously communicated. How much higher again is going to depend on where the bean price is going to evolve especially for the second half of the year of course. But yes, you can safely assume there's going to be a higher number than the 50m that we have communicated, the 50m increase that we have communicated in November.

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Jon Cox, Kepler
Okay I'm just, well just so I'll add, if the cocoa prices stay where they are, do you have sufficient financing now that everything you've done, or do you need to come back and maybe issue more bonds or go back to the banks? That's the first question.

Second one actually just more on operations. You seem to allude to more savings coming through than you've announced of the 250 and three quarters flows to the bottom line. You seem to be saying you're looking for more. Can you give us some indication on that as well?

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Peter Vanneste, Chief Financial Officer; Member of the Executive Committee
Okay the first part, liquidity. Yes, I mean again as I mentioned before we are covering ourselves, we're taking a prudent policy to liquidity and we're adding as we have done you know with the bridge of the €1bn that I talked about the CHF 300m Swiss bond, increasing our RCF and all of that in the course of the first quarter.

We will continue to monitor bean prices as they move and you know as per that policy yes it could be but again it depends on the bean price evolution, it could be that we address other sources as well but at this point you know I'm not going to comment more on that apart from that we will be proactive in doing so when we see the needs.

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

And for BC Next Level we continue to commit to the numbers that we have given to you, 250m of that 80% to the bottom line - 75% to the bottom line, 80% [run rate] realised by the end of this fiscal year.

We do see and that's what you probably refer to Jon, we do see opportunities through the end-to-end supply chain setup that we're now creating for the first time in a company to further improve on our days' inventory health. That becomes obvious and we will communicate when it is possible but we're not changing the commitments we currently have.

The same is true for savings and synergies that are result of the digitisation of the company that we also have in discussion. But again I mean we're not changing here the programme or the Next Level commitments that we've given you earlier.

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Jon Cox, Kepler
Okay sorry I'm just going to just quickly jump in for another bite of the cherry. Just in terms of more current trading, we obviously saw what happened in your Q1 which was to the end of November. We're a good you know almost two months into your - into your second quarter. Has there been any discernible changes in the volume trends at all? Has that improved or is still a similar sort of weakness we're seeing?

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Well Jon I think the bean price carried - the bean price increase carried through until the end of December as you've seen. It's still going up and down as we speak and obviously the industry is carefully looking at that right now.

We're in close discussions with our customers because we obviously have demand by consumers but the retailer discussions that they have that Peter was talking about earlier in the results you know carries on. And so we will continue to monitor that closely and adapt our strategies to that.

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Jon Cox, Kepler
Okay so basically volume trends are the same in the last couple of months this minus 2.7%.

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Peter Feld, Chief Executive Officer, President of the Executive Committee
I will give you more in two months now when we have the H1 update.

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Jon Cox, Kepler
Okay thank you.

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

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Telephone Operator
Thank you. Our next question comes from Antoine Prévot of Bank of America. Please go ahead.

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Antoine Prévot, Bank of America
Good morning everyone. Thank you for taking my questions. So two on my side. Regarding the volume outlook, obviously a bit weaker on the back of the weaker Chocolate - but maybe could you quantify the volume impact from the delayed orders and SKU rationalisation within your guidance?

And also for the EBIT you keep it unchanged, but the mix is now a bit worse with weaker chocolate and stronger cocoa. Could you maybe quantify the impact from that worsening mix on your EBIT guidance? Thank you.

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Thank you, Antoine, for the questions. Let me start with volume. I mean you pointed it right. I mean we have delayed orders. We have guided to that already in our communication for the full year, in beginning of November, as a result of the spring bean price increases and resulting discussions that our customers have with their customers i.e. the retailers. That obviously cascaded through as we saw it. In addition to that there's indeed delayed recovering with customers given the new bean price increase in November and in December.

The SKU rationalisation is something we've planned for since quite a while that mainly impacted also Europe albeit there was a very high comparative in Western Europe in last year because we had one customer in Italy that we actually stepped in as they had their factory completely flooded and we actually helped them through that period as we have communicated also in the full year results. So that's maybe the comments on the volume side.

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Peter Vanneste, Chief Financial Officer; Member of the Executive Committee
And then you had I think a mix question you know – linked towards profitability. I mean actually we still have a positive mix effect as we have in our business because Gourmet and Specialties are both above average in terms of versus the minus 2.7% that we have been growing - sorry going down year on year in the quarter. Those two categories are above that. So that's why we still have an accretive mix effect from that.

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Antoine Prévot, Bank of America
Thank you. Maybe just a follow up on the Gourmet and your expectations for the coming quarters. I mean Q3 we have very tough comps. I mean what will be your expectations for the remainder of the year on Gourmet – volume sorry?

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Peter Feld, Chief Executive Officer, President of the Executive Committee
We continue to believe very strongly in the underlying momentum that we're generating in Gourmet because of the several interventions that we do in terms of strategically assessing you know redressing the distribution network, our branding strategy. You know we have regional - sorry local general managers really focusing on that now as we discussed in previous talks you know with the general manager in France, general manager in Germany who have a key focus on this.

So we had a few elements as I mentioned in North America prioritisation impacting availability and some SKU impacts in Europe. You know we have cycled through that North American story. So we do expect a positive trend in the next quarters on Gourmet.

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Antoine Prévot, Bank of America
Understood. Thank you.

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Telephone Operator
Thank you. Our next question comes from Joern Iffert, from UBS. Your line is now open. Please go ahead.

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Joern Iffert, UBS
Thanks and good morning. Two questions please if I may. The first one would be on the harvest. Interesting to see that you expect a mild surplus. Bean price had been exploding. I think they have never seen such a kind of correlation in the last 15 to 20 years if I remember correctly. What do you think is really the market expectations when you talk to your customer, etc, and when you take all things together what the bean price is doing over the next three to six months because when there's really a surplus and demand is coming down it should become more balanced. But you also said that you expect an ongoing volatile environment. So maybe if you share some more thoughts what is behind this would be great.

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

Joern thank you very much for the question. Look I mean what we see in the terminal market still in this moment and everything that we're looking at right now is against a very tiny volume in the terminal markets. I do think it's important for all of us to understand that.

So when you then have hedge fund activity in the terminal market that just creates incredible swings and incredible increases. You may have seen and noticed the ICE instructions that start to actually limit that and bring it back to normal. That just was announced in the beginning of January with impact on the 13th of January. We all hope that that will do the same trick as it did in May when - or in April - late April beginning of May when the same reaction from ICE actually course corrected the price trend in a likewise empty volume situation. The same thing is happening right now.

So I don't think you can correlate the surplus in the market that may be seen to the current bean price in this environment. I think when you look back over the previous probably 20 years Joern and you will have always had significant surplus and volume in the terminal market which is clearly not the case right now.

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Peter Vanneste, Chief Financial Officer; Member of the Executive Committee
Maybe if I just adding on to that we do believe that the price levels we have in the bean price right now are artificially over inflated. We expect - we expect them to come down. If we look at what's in the press and the rumours, I mean you said it right, it's about balance and an interpretation of supply and demand. We see a lot of maybe overemphasising the supply side and under emphasising a bit the short-term effect these kinds of prices have on the demand side and that's the dynamic that we see behind those prices.

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Joern Iffert, UBS
Thanks and then the second question if I may please on outsourcing. Given that many customers are suffering from declining volumes do you see a current insourcing trend which could also impact your volume guidance to some extent versus your initial expectation in November. So yeah, some comment on outsourcing would be appreciated also.

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Peter Feld, Chief Executive Officer, President of the Executive Committee
Yeah, Joern we see some insourcing as natural with big customers that have the capacity available. That I would say is limited. We continue to have outsourcing discussions with people around the world where we see that under these circumstances making cocoa and chocolate becomes more complicated for more people which is the whole investment hypothesis that we actually put together for the Next Level investment program.

So we believe there's a balanced situation with a short-term drawback maybe on insourcing.

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Joern Iffert, UBS

Thank you.

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

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Telephone Operator
Thank you. Due to time we'll take no further questions for today, so I'll hand back to Peter Feld for any further remarks.

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Closing Remarks

Peter Feld, Chief Executive Officer, President of the Executive Committee
Well let me just thank you all for the questions that you've asked and participating in our presentation today.

With that thank you very much and I'm handing back to the moderator.

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Telephone Operator
Thank you all for joining today's call. You may now disconnect your lines.

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