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Barry Callebaut

Half-Year Results Presentation
10th April 2025

Barry Callebaut

Peter Feld, Chief Executive Officer

Peter Vanneste, Chief Financial Officer

Sophie Lang, Head of Investor Relations

Questions From:

Joern Iffert, UBS

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Introduction

Sophie Lang, Head of Investor Relations
Good morning, everyone, and welcome to Barry Callebaut's Half Year Results Presentation for 2024/25. I'm Sophie Lang, Head of Investor Relations, and our session today will be hosted by our CEO, Peter Feld, and our CFO, Peter Vanneste.

After the presentation, we'll have a Q&A session for investors and analysts and, as normal, please limit yourself to no more than two questions.

Before we start, please take note of the disclaimer on slide two, and I'd also like to remind you that today's session is being recorded. And, with that, I will hand you over to our CEO, Peter Feld.

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Key Highlights

Peter Feld, Chief Executive Officer
Thank you very much, Sophie, and good morning and good day from my side. Thank you for joining our Half-Year Results Presentation today.

As you are fully aware, we are, today, in a never-seen environment, also in our chocolate industry. On one side, we have the pleasure to create little happy moments for millions of consumers and to operate in a category that will prevail to be a growth opportunity globally.

It is also very good to see that we have started our next level investment programme already 18 months ago, and we're strongly progressing delivering on our set course. However, we must recognise today that we're sailing through what one could call a perfect storm right now.

The key thing that I want to leave with you is we are here to play to win. We're in an unprecedented bean price volatility environment, as we have experienced in the last 12 months, which, especially in the last course, has significantly impacted customer behaviour and, hence, our financial performance in the short term.

We're enhancing our operating and financing model in the new market reality to deleverage and to drive higher returns. This will take some time to be fully implemented in the market.

Given offsetting costs from highly disruptive and volatile environment, we will anticipate a 12-month delay to fully reflect the Barry Callebaut's next level savings into the bottom line.

We're confirming the initial plan of CHF 250m synergies and 75% of that to flow through into the P&L. So, ultimately, we're building Barry Callebaut into an even stronger leader and unlocking sustainable, profitable growth for our next decade.

So, when we step back a little bit and look at the past 12 months, and one can say we've seen a never ever experienced impact from highly volatile and spiking bean prices in the sourcing countries. The most important thing I want to share though today is that we believe that the bean price in the terminal market has disconnected to a good degree from the reality of what it takes to actually farm a cacao bean and price to that.

So, we've seen significantly higher and more volatile bean prices, with prices almost doubling on average year on year, and it's good, then, to see that the market has self-corrected itself, probably at around 10,000 GBP for the second time in February.

The exchange open interest more than 60% lower than February 2024. All of that has, obviously, had a significant impact to the entire industry. Operating costs are sky high right now, with initial margins nine times higher than before. Stronger backwardation creates higher cost to roll short futures, 65% more expensive in the first half year peak. We also see significantly higher carry costs given the market prices in this environment that impact our short-term results.

The surplus in the harvest in 2024/25, as we indicated earlier to you, is coming through but about with an 8% increase year on year. Remember, the downwards trend in the last year's crop was about 20% to 30% depending on the crop and the sourcing country.

We, at Barry Callebaut, have secured bean supply into early 2026 to safeguard our paths going forward and protect our customers' deliveries.

So, when we sum this up then, you know, next to the turbulences that we've seen in the bean price, we, obviously, also have a shifting macroeconomic landscape in the United States which has temporarily paused some network decisions that we were preparing in North America.

The key achievements that we have is we secured additional liquidity through the euro and the Swiss bond issuances, and that is a major accomplishment that is a strong sentiment to the conviction that our investors have in Barry Callebaut into the journey and the strategy that we've mapped out to you.

We're also delivering strong progress on all key Barry Callebaut next level initiatives.

I've, personally, over the past six to eight weeks, had several top-to-top meetings with key customers and, together with them, we're working on shortening our cash cycle to improve the operating in the entire industry.

And then, as we're understanding more where we're heading, we, clearly, now see our path for the North American network strategy and confirming the investments that we have done there and expanding rapidly to build an even stronger supply environment for our customers globally.

We're very proud also to talk about the progress we have on Future Farming Initiative, and I will take you through that in a minute.

Peter Feld, Chief Executive Officer
Yes. So, let me just maybe continue to talk a bit about the bean price volatility and what has happened.

So, in general, we are seeing bean prices, obviously, sky high. The chocolate industry, however, and that is the most important thing I want to share with you, will remain the top flavour ingredient for our customers and the number one choice of all consumers globally. We see 84% of consumers that maintain or increase chocolate consumption year on year.

It is important to reflect that the confectionery pricing has consecutively gone up, so we see value increase in our category as we drive more of the innovation to our customers, and they then unfold that to their consumers.

And then, as we've mentioned before, the industry will see clear growth through per capita increases and new consumers entering the market in Asia with 2.5 billion consumers coming into the chocolate industry as we speak.

However, the market turbulences that we've seen on the other side clearly present an opportunity for Barry Callebaut to start from already being the market leader in this attractive, resilient chocolate segment to become an even better partner for our customers.

We're expanding our full range of chocolatey experiences beyond the chocolate offerings into compound and also into non-cacao alternative offerings.

We have just launched, in the UK as well as in the Benelux, our non-cacao solutions from precision fermented sunflower seeds offerings that expand the portfolio of Barry Callebaut and offer all the variety of chocolatey experiences for our customers.

The uniquely vertically integrated global business model from cacao to chocolate is the stronghold of Barry Callebaut and, combined with the unmatched expertise, our large origin country footprint, strong R&D know-how and sustainability capabilities, we can create significant competitive advantage in the market. And, as we've said before already, the strong balance sheet and banking relationships allow us to see through the disruption and the turbulences we currently experience.

So, going forward, we firmly believe that Barry Callebaut is well positioned to navigate the midterm supply dynamics.

When you think about the declining production in the Ivory Coast and Ghana that we actually have experienced, we, on the other side, see increases in harvest through growth and new planting in Ecuador and probably stable developments over the other sourcing countries.

In Barry Callebaut, we have mapped out our two-pronged strategy. First, to really drive change in cocoa farming was our North Star Strategy that is focusing on smallholder farming in current origins, pre-competitive. Here, we are focusing on growing incomes for our farmers, increasing yields and implementing agroforestry to build climate resilience.

The second element, and that is competitive, is our Future Farming Initiative. Here, we're scaling sustainable high-tech cocoa farming in Brazil. FFI will catalyse the industry and diversify the geographical footprint. Our new CEO for that undertaking, Jorge Costa, has now joined, and he has built, since he came in in October, a strong team, experienced team specifically coming from the citrus and orange large-scale farming in Brazil to join our new Future Farming Initiative. And, just this week, with the Board of Directors, we have established our Board of Directors Committee for Future Farming to safeguard and provide the right governance for this undertaking into the future.

So, with that, now let me hand over to Peter. Thank you, Peter.

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Financial Update

Peter Vanneste, Chief Financial Officer
Thank you. All right and good morning everyone. Let me now walk you through the half year performance in more detail. And, let me start with a short summary maybe.

We have been operating in an increasingly volatile and highly challenging market environment with a knock-on effect on customer behaviour but also, especially, on the cost of operating in this market, and that goes beyond the bean price, like the massive increases we've seen in futures rolling costs and in financing costs. We are focusing on protecting EBIT with a higher EBIT per tonne.

We have passed CHF 3bn of higher costs through cost-plus model but, at the same time, the turbulence of the market created an environment where new elements emerged that need to be added to our cost-plus model, and those could not be done at the same speed as the market movements, resulting in a decline of our net profit.

Our free cash flow was also impacted very much by the cocoa bean price increase, which doubled in one year, to fund a CHF 2bn increase in our inventory values.

In all of that, we have been successful, as Peter said, to proactively raise financing at good rates, so we have secured comfortable liquidity to operate in this environment.

Now, starting with how the market dynamics impact volume, as said, cocoa bean price rapidly doubled unprecedented volatility and that has its impact on market pricing and demand and volumes. We've seen some short-term consumer reaction to price increases, but this is also driven, to a good extent, by customer reactions. So, consumer reactions to some point but especially customer reactions playing in this area now.

Sometimes difficult customer retailer price negotiations with, at some points, limits to shelf availability of some of the products and some food manufacturers also temporarily halted promotions to go to the disruption first. And, in fact, if you look at it in H1, the B2B impact of the cocoa market turbulence has been more pronounced than the B2C impact because we've also seen historically low levels of customer coverage and stock in Half Year One as some customers were taking a wait-and-see approach waiting for bean prices to come down from the high peaks. Sometimes also we’ve been prudent in light of the retailer discussions on pricing that were going on.

We've also seen some other selective short-term customer actions, like looking for cost-effective non-cocoa recipe adjustments, compound reformulation, customers implementing more sophisticated multiple pack size changes and so on. And, of course, we're working very closely with our customers through all of that.

All these factors play a role in our Half Year One volumes but, importantly, all of them are also short term. Mid and long term, we remain very confident in the long-term proven resilience of the chocolate category and all the opportunities that it contains.

Now, looking at our volume performance, our volume was down 4.7% in Half Year One. In Global Cocoa, we saw, basically, two things; first of all, a decline in our third-party sales as we made intentional decisions to prioritise internal chocolate in a supply constrained environment and also, within that, to focus on more profitable segments. Next to that, the higher prices also had their impact in cocoa, with a lower demand for some of the cocoa products, especially something we've seen in AMEA and Central Eastern Europe.

In Global Chocolate, volume decreased, entirely driven by food manufacturers and, here, the delayed customer orders played a role as did some of the selective customer actions I just mentioned in my previous page. We also saw a negative effect of SKU rationalisation as we reached the end of our important simplification programme there.

Gourmet has been resilient, delivering 0.7% volume growth with a broad-based recovery to 3.1% in the second quarter.

Now, looking at the regions now, Western Europe was heavily impacted by the customer dynamics I have just been explaining. The business also faced a high base of comparison in the first quarter with a large one-off contract in the prior year – I talked about that in our last meeting.

Next to that, the effect of the SKU rationalisation was also material for Western Europe, and particularly in Gourmet.

Central Eastern Europe saw negative growth, with lower volumes for several large regional and local food manufacturers as well as some intensive competitive local environment, especially in countries like Turkey.

Volume in North America decreased by less than the overall market. Large food manufacturers in the market and with us saw a decline, and our Mexico intervention on quality also led to some temporary volume softness. However, we grew strongly with regional accounts and had a number of new customer wins that partly helped to offset that pressure and perform better than the market.

Latin America saw a strong volume growth. Brazil has been the key player here to contribute to growth and, particularly, we've seen a strong momentum there in Gourmet and compound products.

And, finally, in Asia, Middle East and Africa, excluding China, we've been growing high single digits for the sum of all the other geographies. China, in itself, remains challenged due to the overall economic slowdown for us but for the whole industry.

Now, importantly, the four strategic growth pillars that we've been talking about in the previous conferences, they remain valid, and they remain resilient.

Outsourcing has seen some short-term pressures, with FMCG customers also managing through the disruption and all the uncertainties themselves. However, we strongly continue to believe that the intense volatility of the market, that is there to stay, and capital requirements are really a positive driver of outsourcing, and we see that in the ongoing conversations and initiatives we have with customers in that area.

Gourmet business saw a strong return to growth in the second quarter, and this channel is really expected to continue to drive above average growth for us.

Specialty chocolates, the third pillar, saw positive growth with, actually, a double-digit improvement in North America, AMEA and LATAM. And, in AMEA, Asia, I talked about it but, again, India, Indonesia, Middle East all delivered strong double-digit growth and we are continuing to progress well towards our aim to achieve fair market share in the region and, of course, we are doubling down on China to also address the challenges there. That was volume.

Now, moving to profit. We had an extremely dynamic market in this half year, and we all witnessed what happened end of November, December, January, doubling bean prices, crazy bean price volatility, extreme market backwardation. This has had a major impact on the industry in three key ways.

First one, significantly higher financing needs and costs. The speed of the magnitude of the bean price end Q1 and beginning of Q2 was extremely high and that required more financing. And, on top of that, our hedging strategy requires the payment of initial and variation margins.

So, financing costs increased very rapidly in a short space of time. So, our cost-plus model is designed to pass on financing costs for the long working capital cycle, but these extreme margin payments created a new element in the game and caused a delay in pricing those through.

The second element is the unprecedented market costs in the environment, backwardation in the cocoa market has steepened during half year one, meaning that the near term, more expensive prices, versus the longer term less expensive prices gap has widened throughout the half year. And this is creating bigger costs to roll short futures, which has been, at some point, at the peak of H1, been 60% more expensive than before. That's a big driver and, of course, that weighs more through when customers, and I'll talk about that later as well, when customers are covered lower, we have more of those futures open to that.

Second, carry costs for storing, insuring has increased significantly, and differentials have been very volatile throughout the half year.

Third area is phasing and customer behaviour. Customer orders have been at historically low levels at H1, I've talked about it before, and this, obviously, amplifies the effect of these costs that I have been talking about in the previous points.

Another element to keep in mind here is the longer pricing cycle in Gourmet. We have price lists to distributors in this channel, which are now three or a bit more months. Now, it's much less than what it was before because we shortened it, but still, that's several months to pass some of that pricing, which, obviously, is slower than what the market has been moving at.

Historically, also, we've given our customers quite some flexibility in the timing of the contract execution, which, in moments like this, creates, again, a number of costs that need to be managed and we're collaborating well with them on making sure that it is completely under control.

Now, let's look at the EBIT bridge. Our recurring EBIT increased by 1.5%, as you could see on the left of this chart, 1.5f% in local currencies, with an EBIT per tonne that grew 6.5% versus last year, as we have been focusing on more profitable segments and we benefited from a positive mix, especially, also, both in the channel and in the product segments.

BC Next Level cost savings amounted to CHF 38m in Half Year One, and they were partly offset by lower volumes and then also additional costs that we carried to navigate through the market disruption.

Reported EBIT landed at CHF 296m at the very right of the chart, and that's up 74% in local currency.

One-off costs in this half year were at CHF 35m, and they relate to BC Next Level investments and then the Mexico quality intervention we did in Toluca.

Recurring net profit, an important metric as well, of course, these days, was, and you can see it at the right of this page, was at CHF 64m, down 69% in local currencies.

While we did pass a lot of higher costs related to the bean price, market structure and financing, net profit was impacted by a delay in pricing through to our customers given, again, the unprecedented speed and volatility of the market movements, the low levels of customer orders and the longer pricing cycle we have in Gourmet. In particular, as you can see, the financing costs increased by CHF 125m year on year, and we carried significant other costs, as I mentioned before, in the unprecedented environment. We have taken actions to enhance the coverage and the speed of our cost-plus model going forward, of course.

On cash, no surprise versus last year, these kind of bean price increases significantly impact the cash requirements of the industry. The most pronounced area here, of course, is the bean price itself which directly impacts the value of our inventories. But also, given our strategy to hedge, we face, if the cocoa bean price increases, margin calls that negatively impacts cash flow already before the beans actually enter into our inventories.

In addition, over the past 18 months, Peter mentioned it, initial margin increased by nine times, a factor of nine, because of the higher volatility. These initial margins is the amount of money that future exchanges require you to pay upfront when you want to buy or sell a future. So, that's an additional cost that really was added.

And finally, from a phasing perspective, keep in mind that, due to the timing of the cocoa harvest with the peak season just running out, our inventory levels are typically higher at the end of February than they are in August.

Importantly, we secured additional liquidity, as mentioned already, with the Swiss bond of CHF 300m with the oversubscribed 1.8bn Euro bond. It allows us to take now a proactive approach on upcoming maturities in the next year. And it's important to note that our revolving credit facility is fully untapped at the end of February as it is also fully untapped today.

Overall, our free cash flow, if you look at the third bar, on the chart you have three last half years. Our free cash flow declined by CHF 2.1bn.

By far, the dominant driver, and here you need to look at the blue bar, is the CHF 1.7bn impact from the cocoa bean price. This is due to the long cycle between the moment that we contract beans in the sourcing countries and the moment that we sell in the form of chocolate to our customers, with bean prices increasing over the half year from £5,300 end of August to £7,300 at the end of February.

Next to that, and that's the light brown bar on the chart, we have invested CHF 164m in capex and BC Next Level spend, continuing our investment programme there. And, finally, we saw, and you can see that in the red bar, CHF 200m operational free cash outflow, which hides, actually, strong operational improvements in reducing our cash conversion cycle, so our number of days, but has been offset by higher bean volumes due to the seasonality that we have always between

February and August, higher finished good stocks due to the demand slowdown that we've seen in the market, keeping our finished good stocks a bit higher at that moment than what we normally have and, of course, here, also, we see some of that impact of the higher interest costs that we have over the half year.

Now, in this chart, you can see, from top to bottom, total inventory value first, then, below that, our net debt and, below, that our reported and adjusted leverage. In the right box, you see this half year; the left box, you see the fiscal 2023/24 landing.

Importantly, first of all, in the middle bar, you see our increase of the net debt increasing by CHF 2.3bn to CHF 6.1bn now. Importantly, the vast majority of this increase is explained by a CHF 1.7bn increase in inventory value given the significantly higher bean prices that we've seen rising over the half year. The remainder can be explained by settlement of liquidity swaps and some other working capital movements.

In the first half, our RMI adjusted net debt over EBITDA, so adjusted leverage, that's the red ball you see on the chart, was 3.1x, which is higher than what we would like to see. Now, I want to note that this RMI, which is all the red parts you see also in the top bars, is the readily marketable inventories, and that definition only comprises of the bean stock, the actual beans.

The adjusted leverage, the 3.1x, would be significantly lower if we fully adjust it for liquor, butter, powder inventories that we have. So, if you would correct it for more than just the bean stocks.

It really shows that our debt is fully backed by solid, very solid inventories and, notably, if you look at the top two bars to the right of the chart, the value of our inventories are at CHF 7.3bn, which is CHF 1.2bn higher than our total net debt.

So, yes, the story of our net debt and our leverage is fully linked to the increasing bean price and, therefore, the value growth of our inventory and, although it sits in the higher inventories, we're very focused on bringing that number and that leverage down without betting on a bean price correction, of course, and also bringing return on invested capital back to where it was before.

We're taking, therefore, significant actions to address this, which we do expect to take 12 to 18 months to see the full effect. We're pulling all levers, more specifically also on pricing and the working capital cycle, where we work closely with other stakeholders to bring exposure down, but we're also looking to step up inventory-linked financing to manage our liquidity needs more in sync and more in a simple way in our hedging model, but with less exposure to the day-to-day bean price volatility that has increased a lot.

Finally, of course, we will see the step up from BC Next Level programme in terms of cost savings and capital benefits, the effect of the SKU reduction, the planning excellence initiatives, just to name a few.

Now, let me recap before I hand over back to Peter, let me recap with a bit more granularity the different initiatives that we are taking. We are gradually pricing for the higher cost of capital to drive return on invested capital, including passing through initial margin and variation margin costs. We are pursuing a broader value pricing opportunity through our Next Level Programme. We're very focused on reducing the length of our long working capital cycle. Again, it's not just us, the whole industry is working that way. We had several top-to-top meetings since January with key customers. We've established joint task forces to look at that. One clear outcome, for instance, is to seek or avoid to reduce costs of the total supply chain, for example, by focusing on fixing pricing or fixing differentials earlier, which reduces the exposure to the terminal market, reduces the exposure to margin calls and so on, and the financing costs.

We're also leveraging flex blending capabilities, and we've seen supply increasing in origins with shorter cash cycles.

Internally, we've established a Cash is King programme to further drive the awareness of actions on DIO, DSO, DPO. We are on a positive track there, but we need to accelerate.

And there's a number of end-to-end value chain projects in progress. For example, to optimise demand planning from bean to bar, to optimise the contract flexibility that we offer, and several other things. Big agenda for us over the next months, as I mentioned.

And with that, I will hand back to Peter to talk to you a bit more about the progress on Next Level.

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Next Level Update

Peter Feld, Chief Executive Officer
Thank you, Peter. And so, as you can imagine, and we've mapped out the programme before, this whole environment underpins even more the reason for us to carry on and drive forward with our Next Level investment programme.

So, adjusting pricing and reducing working capital cash cycles, important progress that we've made on Barry Callebaut Next Level initiatives are, obviously, fundamentally important to help us not just navigate through the short-term disruption that we're seeing in the market but actually to set up Barry Callebaut for the next decade of growth. And the progress that the teams have made, despite these market disruptions, are unparalleled.

We, at this point in time, already have run rate cost savings in the bank, about 40% of the CHF 250m that we have shared with you. We see 36% of SKUs phased out to date, that is 6% above the target that we had initially committed. We're progressing very well with our factory footprint. We have three factories completed and shut down. One factory is in the final roundings to get completed. We're starting up two new operations in Neemrana in India to support our APAC expansion, and, on the other side, in Brantford in Canada. And we're planning to add two additional capacities at two locations. I'll speak to that in a minute.

All social plans globally have been completed. And so, with that, we now can really transition the GBS infrastructure from the original countries in Europe, also into our hubs in Łódź in Poland, as well as in Hyderabad. And with that, develop our right-sizing activities that we have committed to deliver.

On quality, the teams have delivered 100% positive release, almost complete. Auto samplers have already successfully been piloted and rolled out across four sites, now preparing for global rollout throughout our entire manufacturing infrastructure.

Very importantly, we've started across eight factories our BCOS new standardised operating system for our manufacturing operations. With that, we will literally unlock the capability and knowledge of our 8,000 factory workers that will give us an entirely different capability as we go forward and serve our customers in a better way.

And last but not least, digital has progressed very nicely, designed cross-functional architecture, launched our AI Centre of Excellence. We've analysed the end-to-end processes throughout the company, strengthened our digital foundation with 24/7 support, enhanced our cybersecurity, and advanced our data capabilities to drive transformation and operational resilience. So, very strong progress in this period of disruption.

The whole journey that we're here delivering with Barry Callebaut is to really step up the game from being an ingredient supplier to become the trusted chocolate solutions advisor.

As we've shared in full, we've put customer experience, the net promoter score that our customers are granting to us, as a key long-term incentive into the top 200 of our leaders, driving for best value, best service, best sustainability, best quality, and food safety.

Our journey, as we've mapped to you, has started last year as we were building the foundation to really rethink Barry Callebaut, hardwire the enabling functions, finance, HR, customer supply and development, and digital, and focus on the regions really on the commercial progress. That's behind us.

This year, we're executing our Next Level, and as I mentioned, we see the first synergies coming through and, more importantly, also the enabling through accelerated digitisation, boosting end-to-end value streams from chocolate into cacao, a fundamentally important undertaking, specifically in this moment of bean price disruption for us to build an end-to-end S&OP process across the entire company is obviously paramount, and so forth.

Next year, stabilise and scale the impact, deleveraging short-term cash cycle, finance transformation, also in preparation of SAP HANA in 27, strengthening our North American network and our North Star strategy in West Africa that focuses on smallholder farming and future farming in Brazil.

So, in all of that, we obviously cannot lose sight to course correct because of the highly disrupted environment we're currently operating in, bean prices and geopolitical. And, with that, we're, obviously, temporarily, investing to navigate this unparalleled disruption.

So, the highly disruptive and volatile environment will result in a 12-month delay for BC Next Level cost savings flow through. We are continuing to deliver on Next Level, as I've already explained, while responding to unparalleled market and supply disruption.

These will have offsetting costs for the following elements of increased costs related to the market volatility, temporary costs in supply chain expected to lap, additional costs in digital expected to create offsetting savings, and aggressively advancing our supply network to give us a stronger supply base for our customers. We're starting up Brantford in Canada, Neemrana in India, we're planning new capacity, significant capacity investment in the US as we're continuing in Brantford and in Southeast Asia.

So, with that, we are keeping course on one side, setting up Barry Callebaut for the future, but, on the other side, also navigating through these disruptions that we see in the market environment.

So, in the outlook, we're confirming our long-term strategy while adjusting our 2024/25 volume outlook in a volatile environment.

We will have mid-single-digit decrease in sales volume in a challenging environment. We're holding the double-digit EBIT, recurring growth in local currencies. And, during the BC Next Level transition period, the dividend per share will not be lower than in fiscal year 2023/24.

So, with that, I would like to hand over to the operator and Peter will join me to respond on any questions that you may have to us right now.

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Questions and Answers

Telephone Operator
Thank you. If you would like to ask a question, please press * followed by 1 on your telephone keypad now. If you change your mind, please press * followed by 2. When preparing to ask a question, please ensure your device is unmuted locally. In the interest of time and fairness to all participants, please limit yourself to two questions at a time.

First question is from Joern Iffert from UBS. Please go ahead.

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Joern Iffert, UBS
Thank you for taking my questions. I would take them one by one if it's okay. First question would be, you have stated in this CHF 330m underlying EBIT there are some extra costs, like variation cost, inventory costs. Can you quantify these costs and are you able to fully recover them and pass them through already in the second half? That would be the first question, please.

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Peter Vanneste, Chief Financial Officer
Okay, thanks for the question, Joern. I'll give you some orders of magnitudes. I mean, sorry, just to be sure, you're talking about financing costs, you're talking about overall costs, right? Beyond financing?

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Joern Iffert, UBS
Beyond financing, the costs you are seeing in the EBIT, but underlying costs, I think, which were more than you expected maybe initially.

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Peter Vanneste, Chief Financial Officer
Yes, yes, yes, understood. Okay, I think it's probably best if I tackle it from the net profit side because there you have all the costs in, right, including the finance costs.

What we see in terms of the drop in net profit, the biggest component is, indeed, in the finance cost area and very much linked to the variation margin and initial margin cost that we had, which peaked very quickly in November, December, January, were not yet completely passed on to customers. So, the biggest component, certainly, is that piece, where we paid financing immediately, did not pass it on yet.

Second area, a bit smaller, is on this customer flexibility I talked about, you know, the fact that changing delivery dates, and there was a low cover of customers, does give some impact in terms of costs.

A third one is on the Gourmet, that the price increases, basically, were passed on three months later, which is, a bit, running behind the increase we've seen in the market. So, those are three areas which are very much linked into the finance cost area.

A second significant block of cost is on the rolling costs. Again, I need to refer back to the low cover of customers and the fact that the market backwardation, as I explained, changed very quickly. So, we have significant rolling costs that are still to be priced on. That's one.

There's extra cost of disruption as the next element, which, basically, it’s investments into extra staff to be able to price faster. I mean, some of our systems are still pretty manual, which means you need to hire people and get people to actually manually input all those kinds of things and at a frequency that is very different than in the past. So, there was a few additional costs being added to manage through that whole disruption. So, that's, essentially, the major component of costs that, bottom line on the net profit, have been impacting us.

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Joern Iffert, UBS
And are you able to pass it through already in the second half? Is this your assumption in the EBIT guidance?

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Peter Vanneste, Chief Financial Officer
Well, that's part of why we forecast a strong EBIT for the second half, obviously, because we have been taking some actions and we're taking some more. That's part of it.

The second part is also that we do not expect the same type of disruption costs to be taken as such. So, part of it is, yes, pricing, the other part is also simply avoiding some of those things that had to happen in this extremely crazy period in December.

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Joern Iffert, UBS
Thank you. And the second question then, please, on the insourcing. You stated there's some insourcing happening, I think it's in Europe, temporarily. Can you quantify roughly what was the volume amount and what makes you confident that these volumes are coming back?

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Peter Feld, Chief Executive Officer
So, look, I think there are very selected elements where customers have just been running very low with their own capacity and where we did not have partnership agreements, but, actually, you know, had a long-standing relationship.

We think these are temporary measures as customers literally put the brakes on full blast when the November bean price spike was happening. I would suggest that that is a short-term reaction, a tactical reaction that I would not put in relation with any long-term trends.

To the opposite, I think this environment right now creates a massive opportunity where people, on the customer side, actually reflect what of the supply chain, do they want to operate, where are they really masters in operating that supply chain, or should they actually lean more to Barry Callebaut to have the discussions. That's what I would point to.

I think this crisis, as much as it is a disruption and, short-term, obviously has implications for us and our customers, we see it as a significant opportunity to actually have better discussions with our customers strategically to be their partners of choice going forward to secure the supply chain in this disrupted environment.

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Telephone Operator
Thank you. Our next question comes from Jon Cox at Kepler Cheuvreux. Please go ahead.

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Jon Cox, Kepler Cheuvreux
Yeah, good morning, guys. I wonder if I can come back to Joern's first question. Maybe I'll, sort of, put it a different way. What do you think that financials line is going to look like for you in FY25? And also, on the tax line as well, the effective tax rate was obviously pretty ginormous, if you can provide that one?

The second question is just on the sort of, one-offs we were expecting. You know, they don't seem to be as much as expected, either in the P&L or in the cash flow statement. Now, I know you mentioned that you have done something in the presentation, but, when I look at your cash flow statement, the capex is only CHF 100m or so. I thought, you know, we expected probably CHF 400m or CHF 500m this year with all of the stuff going on. I can't see that in the cash flow statement. Should we expect that all to run in, including the P&L costs, of the savings plan in the second half or, with the way you've delayed by a year your savings programme, are you saying, because it's all hands to the pump at the moment, we're actually going to do a lot more of that in the next financial year? Thank you.

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Peter Feld, Chief Executive Officer
Do you want me to take the last one first?

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Peter Feld, Chief Financial Officer
Yes. Then you can think about the first one. So, thanks very much, Jon, for the question. So, let me just respond on that.

I think you already pointed to what was going on. Look, when the new US administration was announced, we obviously stepped back in North America and were thinking through more broadly what does it actually mean, both in terms of how we bring raw materials into the US and into North America. As you know, we have a well-balanced setup between Canada, the United States, and Mexico but, obviously, we wanted to wait a little bit and put a bit of a pause in here to actually see how things will unfold.

I think we're through that period. I think by now it's clear that this will remain a disruptive environment, and we're leaning into having a strong balance and a reset network for North America, focusing on really proximity to the customers while optimising our cost structures and that's what led us to doubling down on the investments we have in Brantford in Canada.

We have one additional facility that we will scale out to about 100,000 tonnes in the United States that will allow us to actually serve customers better also in the US, for the US, and, on the other side, our footprint in Mexico, that is also strengthening up as we have Toluca fully up and running again. So, clearly a choiceful pause on North America, if you want.

So, the second thing in there that we look at is that we have also become smarter as we go forward, where we say, you know, where do we want to invest, how much is the investment, do we repair versus build new, which could offset some costs? So, we have a few choices internally that we've made to actually just build a better and stronger plan.

When you think about it, of course, that means, and that's clearly also a point why we see a bit of a deferral, it's clear that, with some of the decisions that we've made there, we're just trailing on certain decisions and that's why we've actually made that announcement. But I do think, at this point in time, you know, we have all guns firing on going forward on Next Level. We just completed our Board meeting earlier this week and have agreement on pushing forward on that.

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Peter Vanneste, Chief Financial Officer
Yeah, and let me take the order that you asked them. So, finance costs, I mean, finance costs went up by CHF 125m over the half year versus last year. So, that's significant and, as I said, of course, it's very much linked to the bean price margin calls, initial margins. It has not been completely front priced through yet. As I mentioned in the presentation, significant part has, but especially the part linked to the initial margins, variation margins are the one that needs to happen. And part of that turbulence on initial margin, especially variation margin, we do not expect the same amount to happen in the second half of the year.

We have talked about an outlook of CHF 230m finance expense in the beginning of the year. Obviously, with the big bean price increase, we will be higher on that. We're more expecting around CHF 350m-ish in the total year, which means a lower amount in H2, but still significant. But, again, everything, as I'm saying, as always, is dependent, is assuming more or less a stability on the bean price as we have it today because that is difficult to predict. So, that's on the financing costs.

On tax, yes, there's quite an impact. We had CHF 60m tax expenses versus CHF 46m, I think, last year, or CHF 69m versus CHF 46m last year. There's a number of components playing.

First of all, there's a much less favourable mix. A lot of things that are happening here is mix of geographies and units, so much less favourable mix, and some non-tax effective losses in some countries.

We've seen also a higher negative impact from provisions for uncertain tax positions, which has impacted, and some minor impact on the application of the Swiss tax reform.

So, a number of components which would lead me really too far to go in here, but mix is a very big element in the equation and we, of course, do not expect this kind of effective tax rate to have it going forward.

On one-offs, yes, they were lower. I think in the P&L, CHF 33m versus, if I remember well, CHF 70m-something last year. A few things to say. A lot of the provisions had been taken already last year, right? So, when we talk about restructuring programmes that we have, the GBS move, some of those severances, basically, have already been provisioned according to the IFRS rules that are there. So, that's why you see them more in the last year than you see them right now.

What we have in the amount of the non-recurring today, I think we have CHF 34m. CHF 30m of that is cash relevant. The big chunk is Next Level, CHF 27m, mainly around the programme and some other impairments and left and right moves. And then CHF 7m is around the Toluca quality incident and interventions that we have done.

And again, on the cash side, I mean, because you mentioned P&L, you also mentioned cash, I mean, yes, we had some cash out on the areas that I just mentioned, which was mostly cash. There is some cash out still coming on some of the restructuring as we are really in the midst of the transformation in Europe now from the GBS, and we're ramping up which and Hyderabad as service centres.

We still have a bit of a double run today, but, of course, as soon as the knowledge transfer has happened, we will move on with the rest and you will see a bit of a cash impact on that front. And I do hope that answers your questions.

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Telephone Operator
Thank you. Our next question comes from Danping Liu from Citi. Please go ahead.

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Danping Liu, Citi
Hi. Thanks for taking my questions. I have two – one on volume, H2 volume, and one on the cost savings progress.

So, on volume, I just want to hear your thoughts on how confident at the moment you are with the volume development in H2. So, obviously, we have a slightly easier comp looking at last year's number and also, by the sound of it, you are expecting more cost pass through in the second half. So, does it mean that, right now, you have a fairly good visibility over the customer orders in H2? And then just related to that, can your customers, especially the big FMCG ones, can they delay the orders? What's the contract term, you know, initially with them? Can they just permanently delay the orders, or do they need to produce a minimum order each year? So, that's on volume.

And then the second thing on the cost savings progress, you mentioned that we should expect a 12-month delay for the full cost savings to be reflected in P&L, and then, now, the run rate at the end of half year one is 40%. How should we think about the run rate at the end of this year, FY25? Should I read 70-80% run rate now, it's more like next year end? And then, for this year, year end, it should be somewhere between 40-70%. Any colour on that will be very helpful. Thank you.

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Peter Feld, Chief Executive Officer
Yes, thank you very much for your questions. So, let me just respond on the volume.

So, obviously, you know, when the bean price spiked right after our full year results in November, all our customers, obviously, went onto the brakes. Obviously, and Peter talked to that, we saw a coverage reduction on the partnership agreements. And remember, we have three ways we sell into the market; long-term partnership agreements, more the closed book agreements that are shorter term, and then we have, for the smaller customers, our price list business. So, when you think about it, right, we do believe that Quarter Two was certainly the low point of what we anticipate for this year.

I want to point out, though, again, that, you know, what you see in the market in bean prices, there's probably a six to nine months delay in the supply chain before the consumer actually sees that and retail will see a reaction on that, just because of the length of the supply chain. And so, what that basically means is that consumers have not yet seen the price increase that we have just behind us between the November and beginning of, or middle of February evolution. So, that's the first thing.

We do see that we have about 70%-plus of our orders in the books for the rest of the fiscal year because of the long-term agreements that we have. So, in volume terms, there's a significant amount of agreements that are in place. And, with some of the relaxation in the bean price environment, we could also see that customers went back and relaxed and reordered.

Thirdly, the top-to-top discussions that we had with the CEOs and CFOs of our largest customers have led to a reconsideration of their buying behaviour with us. So, we have very good discussions jointly with our large partners on shortening the cash cycle, as Peter was explaining earlier, and we're making progress on that.

Now, all of that will take time, right. So, we believe that we've seen the worst quarter behind us, and, you know, that's why we're guiding for the mid-single-digit decline for the full year, this fiscal year. But please remember the bean price increase has not yet arrived at the consumers yet and, by the way, nor has the taxation increase with the new legislation in North America. So, that's to your first question.

On the cost savings on Next Level, first and foremost, right, for us, and we were building capability here for the company that will just improve the underlying service we create for our customers. And, in turn, we are also seeking CHF 250m synergies, of which 75% we're committed to flow to the bottom line. Of that, we clearly have 40% already in the bank, right? So making full progress.

I can share with you that we've also already communicated to a chunk of organisations, specifically in Europe, that they will exit our company as we're transitioning, and Peter mentioned that earlier, from Western Europe into our GBS hubs in Hyderabad and in Łódź in Poland. That is literally happening over the next three months. So, there's a whole series of events, also the fourth factory, where we're already ramping down as we speak, will be planned to be shut down completely in the next two quarters. So, that is, let's say, secured and we have clear sight of these synergies coming through.

So, we're pretty confident that, on the optimisation work streams that Next Level is enabling, we will be delivering as we've told you. But, as Peter has explained before, there is short-term cost increases that we simply had to put in to safeguard our operations to customers to navigate this extremely volatile bean environment. I'll give you one example.

We, obviously, have on one side, a not excessive crop. We, on the other side, had to blend in different ways and ship to different customers in unseen ways and, therefore, we needed to staff up on certain places to make sure that we safeguard delivery to our customers. On the other side, we're also optimising factory utilisation on the short-term level and optimising that footprint.

So, these are costs that we anticipate that will trail off again, but that is the reason why, on one side, we see Next Level fully in time and delivered with all the elements that we've informed you about by the end of this fiscal year but, on the other side, a trailing of that cost improvement impact to the bottom line by 12 months because of the disruption and significant disruption that we have both because of the volatile bean price as well as the new administration in the US coming into the markets.

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Telephone Operator
Thank you. So, our next question is from Alex Sloane at Barclays. Please go ahead.

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Alex Sloane, Barclays
Yeah, hi. Morning all. Thanks for taking the questions. Can I just come back to the financing costs and your ability to pass through? So you've guided CHF 350m, obviously dependent on where bean prices go, but CHF 350m as a base case. How much of that do you expect to be able to pass on to customers this year? And, I guess, you know, kind of more broadly in the subsequent years, you know, is there any change in your thinking in terms of your ability to pass on this financing cost? Is the big miss that we've seen in the first half on this front just purely timing or is it actually getting harder to pass on these costs to customers given everything else you're having to pass on? Thank you.

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Peter Vanneste, Chief Financial Officer
Yeah, thanks, Alex, for that question. Yeah, I think it's important to look at it from both the cost itself and the passing on.

The cost has been very high, and we don't expect this to be that high because we had this massive increase in bean prices in the peak buying season at the moment that customers were covering themselves low in terms of stock. So, we do not expect that amount of cost to come back. That's one thing.

Now, part of that cost, because of that speed that it happened, was not passed on immediately. And, again, linked to some of those same elements that we're facing a low customer cover, we have a lot of short futures open ourselves, which means that the bean market moves, you have an immediate cash out and the bean market moved a lot, not through the industrial players but more the hedge funds who were creating all those moves, which had an impact on the industry, which also happened to us.

So, we will be passing that on, but a big chunk of it will not just happen again as it happened, which is now, you know, why, you know, with the additional financing, we have now freed up completely our RCF, we're not tapping into it, it's a buffer that we have and, again, market levels acting normally. We just keep that as a buffer, which will lower our financing costs, which is why I talked about the CHF 350m for the full year, which is lower than what we have in the half year results.

So, we've been passing on, so far, I think, a bit over half of the financing costs that we carried, or around it, in the first half and we'll be closing the gaps over the second half. We might still get some pressure on the net profit, but I think we're going to make a major step forward on that.

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Telephone Operator
Thank you. We have now reached time. So, any remaining questions will be addressed by the IR team. I will now hand back to Peter Feld to conclude.

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Closing Comments

Peter Feld, Chief Executive Officer
So, thank you very much for joining our Half Year Conference. Let me just say that, you know, the team is really making strong progress on our Next Level implementation, which is setting the foundation for, you know, the next decade of unparalleled growth for Barry Callebaut. And, you know, I think that we are managing very well through this disruption that we have in the marketplace, both coming from the bean price environment, as well as with the new legislation coming, administration coming in North America.

So, with that, thank you very much, and we're looking forward to your detailed questions in the follow up sessions. Thank you.

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