Research Update:

Barry Callebaut AG Outlook Revised To Negative On Elevated Headwinds To Debt Deleveraging; 'BBB-' Ratings Affirmed

April 25, 2025

Primary contact

Paloma Aparicio
Madrid
34-696-748-969
paloma.aparicio
@spglobal.com

Secondary contacts

Maxime F Puget
London
44-7890-900-242
maxime.puget
@spglobal.com

Carolina Coelho
London
44-0-207-176-0342
carolina.coelho
@spglobal.com

Rating Action Overview

- The first half 2025 results of Barry Callebaut AG (BC) showed much weaker than expected cash generation and credit metrics. This was mostly due to unprecedent higher price volatility in cocoa beans and related higher operating and financing costs which led to important working capital outflows and higher debt levels.
- We expect that BC will be able to restore cash flow and credit metrics by fiscal 2026-2027 (ending Aug. 31) but higher debt levels have led us to revise down our forecasts for adjusted debt leverage of 6.5x-7.0x and funds from operations (FFO) to debt of 5%-10% in fiscal 2025; adjusted debt leverage of 4.0x-4.5x and FFO to debt of 15%-20% by fiscal 2026; and adjusted debt leverage of 3.3x-3.8x and FFO to debt of 20%-25% by fiscal 2027.
- We think that the group remains well funded for the next 12 months and retains good access to bank and capital markets financing. We also understand the group is taking a series of measures to improve profitability and increase cash conversion in the business some of them may take 12-18 months to materialize.
- We therefore affirmed our ‘BBB-’ long-term issuer credit rating on Barry Callebaut AG and revised the outlook to negative from stable. We also affirmed our ‘BBB-’ issue ratings on the senior unsecured notes.
- The negative outlook reflects increasing downside risks that BC cash flow and credit metrics may not be restored to below 4.0x adjusted debt leverage and FFO to debt above 20% within the next two years.

Rating Action Rationale

BC’s first half 2025 results were weaker than anticipated mostly because of the very high price volatility of cocoa beans. In the six months between September 2024 and February 2025, there was a 17% drop in S&P Global Ratings-adjusted EBITDA of Swiss franc (CHF) 403 million

and large negative free operating cash flow (FOCF) of CHF2.1 billion (almost double the amount as last year) while adjusted debt increased to CHF6.9 billion (more than double last year). On a 12-month trailing basis, we calculate S&P Global Ratings-adjusted debt-to-EBTDA of 9.7x and FFO to debt declined to 4% both very weak ratios for the rating.
Part of the reason why BC was FOCF negative is because of the seasonality of the working capital as the group secures most of its cocoa beans during that period with working capital normally reversing in the second half. The working capital outflow in the first half of 2025 was unprecedented because of the very high price volatility of cocoa beans between October 2024 and early March 2025 (notably +100% price movement within a two-month period). While BC secured its supply of cocoa beans until early 2026, it incurred much higher sourcing, operating, and financing costs than usual.

We understand that the major cash outflow from working capital swings was a combination of higher cocoa bean price leading to higher inventory costs (and a long inventory cycle of at least 15 months given that the company contracts cocoa beans nine months in advance), higher initial margins (9.0x compared with last year), and hedging costs on commodity exchanges and customers contracted for shorter periods. The speed and magnitude of these higher operating and financing costs for initial and variation margin payments overcame the group's ability to quickly pass on price increases over the period. Most customers are on pass-through contracts for raw materials but not financing costs for initial margin and variation margin payments and it can take three months to increase prices for Gourmet customers (15% of revenues).

The group remains well funded, but larger funding needs meant the group operates with much higher debt levels. The very large working capital needs meant BC had to raise large amounts of new debt to meet its funding needs. The group demonstrated good access to bank financing and capital markets with €1.75 billion long-term senior notes issued in February 2025, CHF300 million issued in January 2025, and an increased committed revolving credit facility (RCF) that increased from € 1. Billion to about € 1.9 billion and was fully undrawn as of the end of February 2025. A significant part of the inventory financing has been through short-term bank loans. Overall, we think that the group has sufficient liquidity sources to adequately manage its CHF2.9 billion of debt due within one year and should continue to access funding should it face again large working capital needs.

We expect BC's operating performance and cash flows to gradually improve in the next years supporting improved credit metrics, but downside risks remain. Under our new base-case forecast, we forecast adjusted debt leverage to be at 6.5x-7.0x and FFO to debt of 5%-10% in fiscal 2025; adjusted debt leverage of 4.0x-4.5x and FFO to debt of 15%-20% in fiscal 2026; and adjusted debt leverage of 3.3x-3.8x and FFO to debt of 20%-25% in fiscal 2027. This assumes cocoa bean prices will stabilize at current price levels of between £6,000-£7,000 per ton, a historically high level but also considering a surplus is still expected in 2024/2025 on the global cocoa market.

We expect sales growth to be higher at about 32%-33% at approximately CHF13 billion-CHF14 billion in 2025 as the company will pass greater costs in 2025 and about 5%-6% revenue growth annually in 2026-2027 on the back of a stabilization of cocoa bean prices offset by a pickup in volume growth. We anticipate that the group will benefit from positive demand growth prospects in emerging markets for chocolate and more globally in compound and noncocoa products.

We forecast EBITDA margin of close to 7.0% in 2025 and 8.5% in 2026 and 2027 assuming both lower operating costs and cost savings (notably benefits from 2026-2027 of CHF250 million of BC Next Level savings with 40% of run rate cost savings already in place). We note the group already closed four manufacturing plants, reduced personnel costs, and stock keeping units by 36%.

We assume FOCF will continue being negative in 2025 before turning largely positive towards CHF700 million-CHF800 million annually in 2026-2027 assuming a stabilization of cocoa bean prices. We note the group has already engaged with key customers and intends to pass financing costs linked to initial and variation margins to customers much more quickly going forward. We also think that cash flow stability could improve from increased sourcing from countries with shorter cash cycles.

That said, we note the group plans to go ahead with its capital expenditure (capex) spending which we estimate will be about CHF250 million annually with a focus on North America and Asia. This is notably to capture growing long-term demand for chocolate products in emerging markets.

We also understand the group does not plan to cut cash dividends (forecast at CHF150 million annually) as it thinks that it will largely improve its financial performance by fiscal 2026 but note that acquisitions are not a strategic priority as the group prefers organic expansion.

We think that BC will need to adapt its business model and inventory management and financing to preserve its competitive advantage. In our view, overall long-term demand for chocolate will continue to increase driven mostly by increased consumption in emerging markets like Asia where BC is focusing its expansion investments. In the short term, consumer demand is likely to remain muted in large regions like Europe given the recent steep increase in chocolate product prices for many consumers facing limited household disposable income. Because the group is an industry leader with a large production, innovation, and distribution footprint, it should be able to diversify and adapt its product offering, geographical markets, and channels to offset volume sales pressure. We anticipate that BC will be able to offer lower cost reformulated products using notably compound or noncocoa alternatives but also offer an increasing range of gluten-free, vegan, single-origin products which are higher value. We regard the strategy to increase sales outside of food manufacturers into the food service customers, artisans, and chain accounts as positive.

We will monitor whether the group is able to make tangible progress over the next two years to maintain its competitive advantage in the industry but also improve its vertically integrated and working capital intensive business model. The company is notably looking to step up inventory linked financing to manage their liquidity needs so they are less exposed to the day-to-day bean price volatility and simplify their hedging model. The long structural working capital cycle (12-18 months period from bean contracting to receiving customer payment) and subsequent hedging on futures exchanges worked well in a stable cocoa bean price environment but in a high price volatility environment faster cash conversion should help improve operating cash flow stability in our view.

Tariff and macroeconomic uncertainty give a higher degree of uncertainty to our base case. Part of BC's U.S. supply is supported by production sites in Canada and Mexico; however, we understand there are not any tariffs on raw material imports from Canada or Mexico. We also understand that their cost-plus pricing model provides them with a mechanism to pass through any incremental operating costs that result from new tariffs, but we continue to remain prudent as this adds a degree of uncertainty to our base case.

S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly (see our research here: spglobal.com/ratings).

Outlook

The negative outlook reflects that we see downside risks to BC's ability to substantially improve its business performance, cash flow generation and credit metrics over the next 12-24 months.

Downside scenario

We could lower the rating on BC if adjusted debt-to-EBITDA remains above 4.0x and FFO to debt remains substantially below 20% on a sustained basis.

This could stem from:

- A limited ability to rapidly pass on sharp price increases and improve the EBITDA margin without hurting volume sales substantially;
- An inability to improve working capital management; and
- A large debt-funded acquisition, or a material increase in shareholder remuneration.

We could also take a negative rating action if we think that the company's business model and franchise is suffering from negative structural shifts in the cocoa and chocolate industry that undermines its competitive advantage.

Upside scenario

We could revise the outlook to stable if we see a faster-than-anticipated improvement in internal cash flow generation and lower-than-anticipated debt levels, which would mean adjusted debt leverage reduces to below 4.0x and FFO to debt of above 20%.

This could happen through the combination of faster-than-anticipated stabilization of volume sales, the continued ability to pass on price increases, and higher cash conversion from improved working capital management partly helped by more stable cocoa bean prices (albeit at higher level compared with two years ago). We would also view the company pursuing a financial policy, which supports a fast debt deleveraging, as positive.

Company Description

Headquartered in Switzerland, BC is the world's largest manufacturer of industrial chocolate, with about a 40% market share in volume terms, and the largest processor of cocoa beans with about 20% of market share. Its large production capacities, with full vertical integration from origination to manufacturing, and well-spread production footprint enable the company to achieve economies of scale and be close to end markets.

In fiscal 2024, the company generated revenue of CHF10.4 billion and adjusted EBITDA of CHF800 million.

BC operates in three main segments:

- Food manufacturers (56% of total sales): CHF5.8 billion of revenues generated from the sale of chocolate products to food producers.

- Global cocoa (27%): CHF2.9 billion of revenues generated from the sale of cocoa products to food producers. But it also generates CHF2.4 billion of revenues from internal transactions with other divisions for procuring key ingredients to produce chocolate.
- Gourmet (16%): CHF1.7 billion of revenues generated from the sale of chocolate products to artisans, chocolatiers, food chains, and distributors.

BC operates in Western Europe; Central and Eastern Europe; North America; Latin America and Asia, Middle East, and Africa. Its cocoa processing activities, global cocoa, account for 16% of revenue. The group operates 62 factories selling products in over 147 countries.

BC is listed on the Zurich Stock Exchange, with about 64.9% of its shares in free float. Most of the shares are held by institutional investors but the largest shareholder by far remains family holding company Jacobs Holding, with 30.1% of the share capital and voting rights. Renata Jacobs of the Jacobs family also owns 5% separately.

Our Base-Case Scenario

Assumptions

- Revenue of CHF13 billion-CHF14 billion in 2025 and CHF14 billion-CHF15 billion in 2026-2027. We think that sales volumes will be negative throughout 2025 more than offset by price increases thanks to the company’s cost-plus model and shorter pricing cycle in Gourmet. We expect volumes will pick up partially in fiscal 2026-2027 with a readjustment of prices to more normalized levels. As the company grows its gourmet section and value-added proposition, we expect growth to accelerate from 2026 onward with an increase in volumes as manufacturing outsourcing grows.
- S&P Global Ratings-adjusted EBITDA margins will continue being depressed in 2025 to close to 7% (S&P Global Ratings-adjusted) before recovering toward 8%-10% over 2026-2027. We assume greater time-lag to pass on price increases in 2025 (30% of volume is under a price list) with higher operational costs and additional one-offs. We expect certain cost efficiencies linked to their BC Next Level to be visible starting in 2026-2027 with a more dynamic pricing adjustment. We also expect greater contribution from high-margin and value-added segments like Gourmet that will slowly contribute to margin growth in the future but starting more into 2026-2027.
- Negative FOCF of CHF1.0 billion-CHF1.5 billion and positive FOCF of CHF700 million-CHF800 million on average over 2026-2027, with negative working capital movements year on year, and capex of about 4.0% of revenue.
- Adjusted net debt of about CHF6.0 billion-CHF6.5 billion in 2025 and about CHF5.0 billion-CHF5.5 billion over 2026-2027. For 2025, we assume about CHF5.4 billion of net debt (after netting cash), CHF530 million of trade receivable securitizations, CHF340 million of lease liabilities, and CHF42 million of net pension deficit. We assume about CHF150 million-CHF170 million of annual cash dividends per year and do not factor in any acquisition spending over 2025-2026. In line with our criteria, we do not net from debt readily marketable inventories like cocoa beans because they are held for processing.

Key metrics

Barry Callebaut AG--Forecast summary

Period ending	Aug-31-2023	Aug-31-2024	Aug-31-2025	Aug-31-2026	Aug-31-2027
(Mil. CHF)	2023a	2024a	2025e	2026f	2027f
Revenue	8,471	10,386	13,000-14,000	14,000-15,000	14,000-15,000
EBITDA margin (%)	10.9	7.7	6.5- 7	8-9	8.5-9.5
Free operating cash flow (FOCF)	76	(2,449)	(1,000) to (1500)	700-800	650-750
Adjusted ratios					
Debt/EBITDA (x)	2.1	5.7	6.5-7	4.0-4.5	3.3-3.8
FFO/debt (%)	36.5	10.6	5-10	15-20	20-25
EBITDA interest coverage (x)	7.6	3.6	2.5-3.0	5.0-5.5	6.0-7.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. CHF--Swiss franc.

Liquidity

We assess BC's liquidity as adequate under our criteria. We forecast that liquidity sources will exceed uses by 1.2x over the next 12 months. Even if EBITDA declined by 30%, we think that net sources would remain positive. We also value the strong banking relationships, diverse debt sources, but note the relatively tight headroom currently under the financial covenants for the undrawn RCF.

Principal liquidity sources

- Cash and cash equivalent balances worth CHF1.6 billion as of Feb. 28, 2025;
- Undrawn committed credit lines of CHF1.8 billion for the next 12 months; and
- Forecast cash FFO of approximately CHF700 million for the next 12 months.

Principal liquidity uses

- About CHF 2.9 billion in debt maturities within 12 months;
- Estimated maintenance capex of about CHF180 million in next 12 months;
- Dividend payments of about CHF150 million in next 12 months; and
- No contracted share repurchases.

Environmental, Social, And Governance

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of BC. It is one of the most advanced agribusiness companies globally in terms of level of disclosure and proactively addressing environmental risks. Notably, since 2016 it has been implementing a comprehensive strategy to improve the sustainable sourcing of cocoa (as well as other raw materials) and preserve biodiversity.

We think that the progress of the sustainable sourcing and biodiversity program should help limit loss of business volumes for BC when its main customers and end consumers become increasingly sensitive to these issues in their purchasing decisions. BC's initiatives include the digital mapping--and thus improved traceability--of all the cocoa farms in its main origin regions of West Africa. In terms of social risks, the company is running a comprehensive program to reduce child labor in farming communities in Africa. BC also supports the professionalization of the cocoa farmers with the aim to improve their productivity and increase income.

Issue Ratings--Subordination Risk Analysis

Capital structure

BC issues most of its senior debt through Barry Callebaut Services N.V., its group financing vehicle. Most of the long-term debt instruments are senior unsecured and guaranteed by BC.

Analytical conclusions

We rate the long-term senior unsecured debt 'BBB-', in line with our issuer credit rating on BC. This is because we assess limited structural subordination in the capital structure as total secured debt and debt held at the operating companies is below our 50% threshold.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB-/Negative/--
Local currency issuer credit rating	BBB-/Negative/--
Business risk	Satisfactory
Country risk	Low Risk
Industry risk	Intermediate Risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb-
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024

- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Industry Credit Outlook Update Europe: Consumer Products, July 18, 2024
- Barry Callebaut Lowered To ‘BBB-’ On Weaker-Than-Expected Credit Metrics On High Cocoa Price Volatility; Outlook Stable, Nov. 18, 2024

Ratings List

Ratings list		
Outlook Action; Ratings Affirmed		
	To	**From**
Barry Callebaut AG		
Barry Callebaut Services N.V.		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--

Ratings Affirmed		
Barry Callebaut AG		
Barry Callebaut Services N.V.		
Senior Unsecured	BBB-	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each ofS&PGlobal Ratings’ ratingcategories is contained in“S&PGlobal Ratings Definitions”at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found onS&PGlobal Ratings’public website at www.spglobal.com/ratings.