Barry Callebaut

Nine Month Trading Conference Call
10th July 2025

Barry Callebaut

Peter Feld, Chief Executive Officer

Peter Vanneste, Chief Financial Officer

Sophie Lang, Head of Investor Relations

Questions From

Ed Hockin, JP Morgan

Joern Iffert, UBS

Alex Sloane Barclays

Danping Yu, Citi

Antoine Prevot, Bank of America

Andreas von Arx, Baader Helvea

Tom Sykes, Deutsche Bank

Introduction

Sophie Lang, Head of Investor Relations
Thank you and good morning, everyone. Welcome to Barry Callebaut's Nine-Month Key Sales Figures conference call for 2024/25. 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.

As usual, at the end of our presentation, we'll have 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, and we'll keep the Q&A for a session focused on discussion of those key figures.

Before we get started, please take note of the disclaimer on slide two, and I'd also like to remind you that the webcast and conference call are being recorded. With that, I will hand you over to our CEO, Peter Feld.

. . . .

Key Highlights

Peter Feld, Chief Executive Officer
Thank you very much, Sophie, and good morning everyone. Thank you for joining us for our Nine-Month Results presentation.

We are all aware of the challenging environment of the past 18 months. The cocoa market continues to experience historic volatility. These unprecedented conditions have become the new normal and have fundamentally impacted the entire industry and value chain.

Despite all of this, Barry Callebaut is holding up well and remains healthy and we continue progressing our next level transformation. Let me emphasise this once again – we play to win.

We are leveraging our cost-plus pricing model. We have successfully priced through the cocoa price increases to our customers much faster than the market can absorb at retail, with a 63% price increase year-to-date, and significantly increased with those revenues by nearly 57%.

Additionally, our strategic decision to prioritise higher return segments in cocoa and chocolate speaks to our mission to deliver the world's best chocolate solutions as well as our financial ambition to deliver sustainable profitable growth.

Although the market disruption led to a volume development of minus 5% year-to-date for chocolate, and due to changes in strategic priority for cocoa, a group volume of minus 6%. This is mainly driven by the B2B headwinds as customers slow their buying, ordering and, importantly, call us. This has led to an unexpected over-swing reaction in demand in addition to our strategic choices for cocoa.

These developments underscore the importance of BC Next Level where we are delivering ahead of plan.

Through BC Next Level we're building the capabilities that are needed to succeed in this environment, becoming more agile, scaling for better and faster, and operating with a leaner cost base.

At the same time, we're strengthening our financial model, and we've already started to take concrete actions to reduce our leverage and insulate our business model from these bean price spikes, setting us up well for future growth.

In summary, Barry Callebaut is resilient, we're building for the future, and our transformation is gaining momentum, even in these challenging times. We're laser focused on unlocking sustainable, profitable growth for our next decade to drive higher returns and position Barry Callebaut as an even stronger leader.

Let me start with a few highlights on the cocoa market. The price backdrop remains elevated and highly volatile, increasing 43% in year-to-date periods. Back in May, we saw yet another spike, but relevant to note the futures market has self-corrected several times now as it is forced to reconnect with the reality of the supply situation.

From a supply perspective, the expectation for a slight surplus in the past half remains. Going forward, we're seeing encouraging cocoa productivity improvements, but it will take time to see the benefits here.

In the short term, we believe the higher farmgate prices in Ivory Coast will help the outlook here.

This market volatility creates ripple effects that our whole industry is adapting to. We operate in a very attractive part of the value chain, but it also leads to an amplification of these ripple effects in the short term as customers adjust behaviour at the same time consumers are getting used to higher prices.

Our cost-plus model enables us to price through, in near real time, the volatility of the terminal market. You can see we have been successfully passing along these higher prices, with revenue moving up in lockstep with bean prices.

Down the value chain, our customers must negotiate with retail partners without perfect visibility into how the cocoa price will develop further or how consumers will respond. As a consequence, they must make assumptions and take actions in anticipation of consumer reaction that they continuously adapt, which then, again has an impact on us further up the value chain.

Ultimately, Nielsen is just a lagging indicator reflecting the consumer customer reaction of the terminal market price. What we can see now is that Nielsen is reflecting the cocoa price spikes.

While significantly higher bean prices will, of course, create a shorter market demand impact, we can see the category remains very resilient compared to other food and beverage categories.

As we look beyond the top line figures to our strategic growth pillars, there are several things that I would like to highlight. First, we continue to deepen our outsourcing partnerships with customers. The pipeline of opportunities continues to grow, and we can see that especially in this volatile environment. My conversations with CEOs continue to reinforce this opportunity.

Second, Gourmet was impacted this quarter by a high comparison base but continues to show strong resilience. We have delivered strong growth in AMEA and in Latin America while continuing to reshape the way we go to markets, including digital route to market showing very promising signs.

Third, Specialties is creating the intended positive mix effects, with positive growth with FM customers which is capitalising on the demand for products that appeal to consumers in the context of higher bean prices, particularly in categories like ice cream and biscuits.

Fourth, in Asia, we've launched our new Neemrana factory in India to take advantage of the growth opportunity in that market. We are scaling up our compound Centre of Excellence in Singapore and, here, we've signed a strategic collaboration in the region to accelerate sustainable chocolate innovation geared to the consumers in this region.

All discussed changes in market dynamics underpin the rationale for our Next Level Investment Programme. The organisation in Barry Callebaut continues, making very solid progress to improve our capabilities to deliver better customer experience by being closer to markets while simplifying and digitising Barry Callebaut.

We made progress scaling our new operating model for our product supply environment with PCOS and continue to develop best-in-class food safety capabilities.

Our new GBS network is well underway, with 93% of knowledge transfers completed to date. We are rolling out various new digital tools that will deepen the partnerships with our customers and also enable us, internally in Barry Callebaut, to operate faster and far more effective.

And last but not least, we're seeing nice acceleration in bringing our organisation along in Barry Callebaut with results of our last culture survey significantly up versus just six months ago. So, with that let me hand over to Peter.

. . . .

Financial Update

Peter Vanneste, Chief Financial Officer
Thank you, Peter, and good morning, everyone. Let me dive in our volume performance in a bit more detail now.

Sales volume has been down 6.3% in the nine months and 9.5% in Quarter 3. Now, within this, it is important to distinguish between Global Chocolate, which decreased by 5.1% in nine months, 6.2% in the quarter, and Global Cocoa, which was at 11.3% in the nine months, 22.6% down in the quarter.

Now, starting with Chocolate, food manufacturers have remained under pressure, with 5.8% volume decrease, driven from the challenging pricing environment and amplified by the US tariff uncertainty, as we talked about. Still, performance improved sequentially in Q3 versus Q2.

Gourmet also decreased yet was more resilient at minus 1.7%, led by AMEA and Latin America.

The Q3 volume in Gourmet was impacted by the high base of comparison last year, and we also see an increased inter-quarter volatility given the specific timing of the price list increases. So a softer Q3 after a stronger Q2.

In Global Cocoa, we saw a significant decline in our third-party sales as we made intentional decisions to prioritise chocolate supply in a supply constrained market and to focus on the more profitable segments within cocoa.

The business also saw significantly lower market demand, especially in areas like AMEA and CEE, impacted by the high pricing and given the more commoditised nature of this part of the business.

Moving now to the chocolate regions, volume development in Western Europe was heavily impacted by customer behaviour, that Peter also talked about, in reaction to the higher prices, like supply phasing, destocking, price pack architecture. The effect of the SKU rationalisation also played a role over the whole year in Western Europe, specifically also in Gourmet.

In Central and Eastern Europe, we saw negative growth as the market, with lower volumes for several large regional and local food manufacturer customers, triggered again here by the price increases, but also an intensified competitive environment, especially in Turkey.

In North America, volume remained impacted by temporary volume pressure triggered by pricing for the large food manufacturers. The ongoing efforts to fully ramp up customers in Toluca in Mexico after our quality intervention we had there, and in the third quarter, North American volumes further deteriorated as the challenging US tariff environment created customer uncertainty.

Latin America continued to see strong volume growth. Brazil was the key contributor to growth, with a particularly strong momentum in Gourmet and compound products.

And finally, in Asia, Middle East and Africa, volume growth was positive but much stronger when we exclude greater China where we and the rest of the industry continues to be very challenged by the overall economic slowdown.

Now, we're working with a lot of focus on our action plan to deleverage from 6.5x net debt over recurring EBITDA that we reported at the Half Year 1 Results to a level of 3.5x.

The plan is focused on three areas – it's first, reducing our net working capital cycle, especially on inventory. Inventory is where we see the biggest impact of the bean price and the debt step up that we have seen, and in this area, we've also made most progress so far with the end-to-end value chain projects and views that we are working on to improve demand planning reducing inventory levels. But next to that, we're also further leveraging our flex blending capabilities. We're diversifying into origins with shorter cash cycles and also further assessing the contracting flexibility that we have or allow.

Second area is obviously on increasing EBITDA, and here, also particularly pricing for the higher financing costs that we are carrying. In some of those segments, we have already increased prices to cover this and continue to monitor our competitiveness on that closely.

We also have task forces in place with some of our largest customers on how we can jointly avoid certain costs for the industry by adjusting practices across both of our value chains and, obviously, we continue to focus on delivering the Next Level cost savings agenda.

And thirdly, initiatives around the funding mix and structure, so how we finance it. So, one area is evaluating instruments that are less cash consuming in those peak bean moments. You know, we've seen in the charts before those high peak volatility and with high peaks and leveraging instruments that are less cash consuming in those areas are certainly going to help to reduce our financing costs.

We're also making more use of inventory-linked financing solutions to reduce the dependency on these immediate fluctuations and also, on that front, and across the different levers, we are making good progress. Discussions are ongoing and we will be sharing more with you at the later stage when we report more specifically also outlooks at the end of the year.

Overall, we expect to take around 12 to 18 months to see the full impact from all of these de-leveraging actions. Some are fast, some are a bit slower, but we do expect the first good step already at the end of this fiscal year. And on that note, I will hand back to Peter to share the outlook and to conclude.

. . . .

Outlook

Peter Feld, Chief Executive Officer
Thank you, Peter. So, with the recent swings driven by unparalleled market volatility that we've just talked about in our internal decisions for cocoa, we're revising our 2024/25 outlook to mid-single-digit volume decrease in Global Chocolate and double-digit volume decrease in cocoa, with the results overall in -7% volume decrease for the Group and with EBIT recurring expected to see a mid to high single-digit increase in local currency.

So, let me just sum up. As the entire industry is in a new model now, we are continuing to drive decisive actions to enhance resilience and agility. One, in pricing leveraging our cost-plus model. Second, with our clear focus on our four key strategic pillars – Outsourcing, Gourmet, Specialties and Asia and, importantly, creating better customer experience and enhancing agility, scalability and cost efficiency.

We are confident and continue implementing the right steps to build a stronger, more resilient Barry Callebaut for our customers, our employees and our shareholders, especially in this new environment. Thank you very much and handing back to the operator.

. . . .

Questions and Answers

Telephone Operator
Thank you. If you would like to ask a question, please press * followed by 1 on your telephone keypad. To remove your question, please press * followed by 2. Again, to ask a question please press *1. As a reminder, if you are using a speakerphone, please remember to pick up your handset before asking a question, and please limit to two questions max per person. We'll pause here briefly as questions are registered.

We have our first question from Ed Hockin from JP Morgan. Please go ahead.

. . . .

Ed Hockin, JP Morgan
Hello, all. Thank you very much for taking my questions. My questions are both actually on pricing, please.

So, number one, pricing in the short term, obviously, in H1, the pricing that you took was not able to fully compensate for your higher net financials costs. I think it was about 50% coverage if I remember correctly. Can you comment on how that pricing coverage has evolved in Q3, please?

And my second question, more kind of mid to long run, is on your action plan for the next 12 to 18 months. I see the wording looks to have slightly changed since H1 and, at H1, the number one topic was pricing for the higher cost of capital requirements and adjusting the cost-plus model. I'm wondering, please, can you elaborate on how those discussions with your customers are going? Are you seeing much in the way of pushback and when we might start to see that adjustment to the cost pass through model coming through? Thank you.

. . . .

Peter Feld, Chief Executive Officer
Yes, thanks for your question. Let me start and maybe Peter can take the second part of your question. So, indeed, I mean, in Q1, obviously, with this extremely strong slope or increase in bean prices in the November/December period, you know, we, obviously, already in Q1, priced through very significantly at that point in time. I think we said that, in H1, we priced about 3bn or 3.1bn, which is pretty unseen in the industry. But indeed, as you said, there were a few delays, especially in long-term contracts, where we're bound to long-term agreements with customers.

Since then, we've made strong progress, and Peter talked about that before, both in working with our customers, how we can reduce jointly the cash cycle but, secondly, you know, we're obviously tailoring and going further in making sure that we drive our cost plus model into the market.

Technically, as you may know, we have three ways we go to market – we have partnership agreements which are long-term contracts that are literally going in real time in pricing unless there's additional cost cash cycle discussions happening.

Secondly, in the closed book arena, which is mainly for the FM customers and then certainly in Gourmet. In Gourmet you have technical delays simply because we're legally bound to certain periods of pre-announcements, such as, for example, in France, where it just takes some time to implement pricing into the market.

I think, as you've seen in the second or third slide that I was sharing, we have really ramped up very significantly in, as I had called it, price through in near real time into the market to a significant level of 63% year-to-date, which is quite amazing when you think about it. Peter, maybe you take the second part.

. . . .

Peter Vanneste, Chief Financial Officer
Yes, I'm making the bridge from your first question to the second one, of course, we're working both on you know regarding to those finance costs and those extra costs that we carry in the disruption. We're working both on the pricing as on avoiding some of those costs. So, those are areas.

And this is also what I explained in this one page, and I heard you refer it back to the H1 communication we had on that, essentially, it's the same levers. Admittedly, they're a little bit differently structured this time around, but let me elaborate a bit on that and give you a bit of a status, but they're the same levers. Of course, they evolved, some of them, we see more potential, some of them, we face a bit, but we have not lost traction or belief since Half Year 1. We're just being more specific and making progress.

So, you know, we do have those end-to-end value chain projects in place, right. When do we buy the beans? How fast in advance? Which kind of cost can we avoid by buying later? What are consequences on the way we produce on the value chain with that? And to what extent, of course? That also helps to reduce the inventory levels, including origins. Which origins do we buy beans from? Because some origins have lower cycles than others. We can be flexible around that.

Our flex blending capabilities are being stepped up so we can get to same and strong quality results with different bean sources. We're assessing the flexibility and that, of course, we do together with customers. Flexibility that we allow and have in our contracts in terms when customers take off. Customers have challenges, obviously, for themselves as well in the market, so they need to have some flexibility. Of course, this flexibility in this disruptive market might have a cost, so we're working on that.

We're obviously pushing our internal programme. I didn't emphasise this, this time around in the communication, but we have our internal Cash is King programme where, based on strong reporting KPIs, we work on the different levers of the cash conversion cycle, inventory, payables and receivables. So, that's one area.

The other area, of course, is EBITDA. Pricing comes in, as Peter talked about, and not just the straight bean pricing but also pricing through carrier costs, switch costs, all the costs that are related to operating in this volatile environment.

Also, there we have task forces in place with key customers to see how we can either price or avoid some of those things, which is more of a win-win event than pricing it through. And then there's the other levers, of course, on the cost savings side, which is the Next Level Agenda of cost savings. And next to that, next to the Next Level also cycling out gradually some of those extra costs that we are carrying that also impacted H1 that we're carrying in a disruptive market.

Think about pricing, the frequency that we stepped up which, to some extent, still is manual, the shifts of the bean origins create some complexity in our factory network. So, all these things we're working on which will also step up our EBITDA and, therefore, also reduce our leverage.

And then the third element, I'm not going to repeat it, I said it in the presentation, is more around the financing and the funding, inventory-based solutions, all the types of financing that are less susceptible immediately to short-term fluctuations in the bean price. I hope that answers your question.

Telephone Operator
Thank you. We have our next question from Joern Iffert from UBS. Please go ahead.

Joern Iffert, UBS
Thank you for taking my questions and good morning. The first question would be, please, on the volume outlook. I mean, you mentioned there's some temporary insourcing happening, some SKU rationalisations on the customer side and also, in cocoa, you're focusing more on higher margin products. I mean, for how long do you think these things outside of the consumer price elasticity will impact your volume? So, in other words, when, roughly, do you expect volume to turn to positive territory again? This would be the first question.

And the second question, please, on the competitive environment. You mentioned in Turkey it's quite competitive. Do you observe some customers not fully priced, rising financing costs, etc? Is there some irrational pricing happening? And also, as they have already closed, it seems the government is increasingly partnering up with Chinese players to invest in grinding capacities. Do you expect this to impact your business? This would be the second question, please.

Peter Feld, Chief Executive Officer
Thank you, Joern, good morning. Just let me answer the questions quickly.

So, on volume outlook, look, I think the main things that I would point to is really the market volatility and disruption that we've seen in the last 18 months combined with the, obviously, North America, as Peter was mentioning, with the disruption we saw with the new administration taking measures on tax and tariffs. And then our internal decision on cocoa, in line with our focus on cash, that obviously is paramount.

So, the way that we see that is that, and you see me pivoting far more to really making sure that we look at the chocolatey solutions going forward, which really is the essence and the purpose for the company. And so, with that, I believe that we will see less volatile pricing but at a higher level, as we have said before. And I do think we can see that in the latest spike that went far less up than before. But I must say that we will continue to be in a volatile environment needless to say going forward.

I think, for us, internally, we're having far more end-to-end discussions about cocoa into chocolate and how we actually really drive that synchronisation of activities that we have in chocolate for cocoa far more effectively, far more efficient, as Peter was also outlining, with the different bean blends and the mechanisms that we put in place. So, that's for the first part.

In a competitive environment, on Turkey, you know, I think that there's quite a market where we have been cautious in the past given the currency volatility that was in Turkey, hence we have a strong programme in place locally. We have literally developed our business very nicely but at a lower market share level than in comparison to the rest of Europe simply by the fact that we've been cautious on investing in Turkey versus the currency and devaluation that was going on some years ago. So, that's a little bit of the situation there. There are local competitors, which, in turn then, obviously, operate locally, and that's creating the competitive environment that we see in Turkey.

. . . .

Joern Iffert, UBS
Okay, thanks. And the Chinese partnering up with the government in the Ivory Coast is something which is concerning you?

. . . .

Peter Feld, Chief Executive Officer
No, I wouldn't say that. I was just, three weeks ago, in Ghana. In fact, I met with the Ambassador of China in Ghana, because, obviously, the Chinese government is very active in infrastructure and development projects, and when you think about it, we need to get fertiliser to the farms the roads matter, and that is why it is obviously important for us to engage, and that's what we're doing. But I don't think that that is a significant amount of activity to the opposite. I think we're seeing far more activities in infrastructure investments and other things.

. . . .

Telephone Operator
Thank you. We have our third question from Alex Sloane from Barclays. Please go ahead.

. . . .

Alex Sloane, Barclays
Yeah, hi. Morning all. Thanks for taking the questions. First one, just on volumes, I mean, you show in the presentation, Barry Callebaut's performance versus Nielsen, you've shown that for the last decade or so. I mean, when I look at the sort of the nine-month numbers and the comparison, I can't remember a period of such stark underperformance, and I mean specifically in North America, the delta of your volume performance versus that Nielsen has really widened materially. I mean, in that context, should we not be concerned that Barry Callebaut appears to be losing market share? Or is this just entirely about differences between kind of sell in versus sell out? And if it is the latter, could you maybe update us on sort of where you see inventory levels at customers and retail today? That'll be the first one.

The second one, just going back to the finance cost and the passthrough of that in pricing. I didn't fully get the answer there. But I think you've, historically got, I mean, you had guided at H1 to the finance costs being around CHF350m for the year. Is that still the right guidance? And can you tell us how much, within your updated EBIT guidance, you're assuming is passed on in terms of higher financing costs year over year? Obviously, quite an important variable. Thank you.

. . . .

Peter Feld, Chief Executive Officer
Thank you, Alex, for your question. Let me refer back to page five, which I deliberately put out there. I know that BC has, for the past decades, always referred to Nielsen as the best proxy of what's happening on our customer side, but what is important to understand is, in this short-term disruptive environment, Nielsen is a bad proxy to look at. And the reason that we're showing both slides here is because there's a nine-month delay between what happens in a

consumer offtake and the reporting that Nielsen is doing, which also has a lag, compared to when customers actually order with Barry Callebaut. And so it's paramount for us, and we're pivoting.

We've actually, I think I can share that, we just fielded a B2B study because we need to have a proxy for B2B environment and give far better accuracy on market shares in the B2B environment that we're focusing on. So, I think, absolutely, there's a decoupling here that we see in Nielsen and the lag, the time lag of six to nine months versus purchasing activities and call-off activities of business in Barry Callebaut.

Now, that said, we're having eyes very clearly on the ball here in North America because, obviously, we took a major intervention last year, that you will remember, was Toluca in Mexico, 100,000 tonne chocolate factory that we deliberately took out for two months and where we're reconnecting very nicely now. But that, obviously, had an impact because customers had to find interim solutions elsewhere, and that is being returned and reversed at this point in time. But obviously, it will take some time to get back fully into the numbers. Peter, maybe you take the financing?

. . . .

Peter Vanneste, Chief Financial Officer
Yes. So, the financing cost and pass on, we believe we're going to land the year, I'm not going to give very specific guidance because this is, of course, about volume, but we believe we're going to be somewhat above the CHF350m that we mentioned at the Half Year, so it's going to be a bit higher.

Obviously, as the bean price comes down and as we're making our progress on deleveraging, we are, of course, going to be gradually reducing that as we get the maturities of some of the debt or we reduce some of the open debt that we can do immediately. So, that will go down but end of year will be a bit higher than what we guided in the middle of the year.

And then, on the impacts and the pass on, I mean, obviously, we had an exceptional impact on Half Year 1, right, because of the speed of the increase that we saw then happening. So, H2 will be significantly better.

Our net profit, because it's, you know, I'll talk a bit more about that in that context because net profit is, of course, a key KPI, right, that we have very high metrics on internally. As I mentioned in my previous answer, we were both on pricing through those interests, but also in avoiding some of those, so that helps.

We will have a significantly better net profit results in H2 than what we have seen in H1, be it that it will still be slightly negative most probably, and certainly the full year will be. So, we're making very strong progress in passing on everything that needs to be passed on. But next to that, of course, we have a bit of a volume pressure, and some of those extra costs related to the disruption.

. . . .

Telephone Operator
Thank you. We will take our next questions from Danping Liu from Citi. Please go ahead.

. . . .

Danping Liu, Citi
Yes, thanks for the presentation and thanks for taking my questions. I have two. The first one is on financing. So, I'm just very curious that whether more financing will be needed in the short term. So, if I remember correctly, at H1, you had about 1.6bn cash and nearly 2bn RCF, which was not drawn out. And then you had, at that point, the current liabilities of about 2.5bn. So, it looks like the liquidity you had at that point was just about to cover the short-term debt. So, my question is, under what scenarios in the short term will you need more financing? And specifically, since I think the procurement of the main season cocoa beans is about to start in summer, will you need more financing to procure if everything stays as it is today? So, that's my first question.

And then my second question is just a quick one on tax. I remember, at H1, we had some extraordinary tax charges, and that was to do with some less favourable mix of profit before tax and then some non-tax-effective losses in some countries. So, now we are three months past into H2. Directionally, do you expect any sort of exceptional tax expenses in the second half or any additional colour on that will be very helpful? Thank you.

. . . .

Peter Vanneste, Chief Financial Officer
All right. Let me take those. I'll save it, of course, because this was a bit detailed for a volume update. But, to your first question on liquidity, of course, that's, at any update, important. Just one thing to say on part of your answer is that we always have kept, including in the months where the bean prices were very high, we always have kept sufficient liquidity buffer to make sure that we can absorb any peaks that could come on top of where the price is at. That's a very important point. It's like a very basic thing.

Our liquidity today is ample. So, we certainly have enough today. We have raised, as you are well aware, within Jan-Feb with the euro bond, with the Swiss bond, additional liquidity. We keep our RCF, and an additional RCF that we have, completely open, so we're not tapping into that. So, we have a very significant buffer that can protect us.

On top of that, as I mentioned, we are developing and concluding instruments that keep us less exposed to short term peaks if they might come and they might come, you know, there might be some volatility. We don't expect bean prices to stay very high for very long, you've seen it in the past, but we could have peaks and we're using different elements to do that. But even without that, I am very comfortable with the financing that we have, liquidity that we have, and I'm not anticipating that we need to raise more over the next months or even year.

And then you had a point about the tax. I mean, yes, you explained it well, what happened in Half Year 1, which was exceptional for the reasons that you mentioned. In Half Year 2, we expect an improved tax rate versus H1. It will still be a bit above the usual that you've seen in the past of 17% to 22%, but a significant improvement versus what you've seen in H1 and all major exceptional things to mention.

. . . .

Telephone Operator
Thank you. We'll take our next question from Antoine Prevot from Bank of America. Please go ahead.

. . . .

Antoine Prevot, Bank of America
Good morning to all of you. Thank you for taking my questions. So two for me, please. First one on Global Cocoa. So, maybe, could you split a bit the performance between, let's say, powder, liquor and butter, please because, I mean, global powder price has been improving and there's probably some okay demand there, whereas butter is really down a lot, so I guess more weakish, and so we are splitting a bit the performance there. And how do we think about this business going forward? You said you want to focus a bit on a higher- on better mix type of products. So, what does that really mean in terms of different subcategories?

And the second question is maybe on compounds. I mean, you said momentum, I think, remains strong, but with cocoa butter coming down and cocoa powder going up, would not the price differential mean the compound is becoming less interesting to use compared to normal cocoa butter? Thank you.

. . . .

Peter Feld, Chief Executive Officer
Thanks, Antoine, for the question, because it goes to the heart of, you could say, the transformation of how we manage the portfolio and how we look at cocoa really being the supplier for chocolates, right. I mean, when you think, when you go back to our November 2023 presentation, we already said, you know, we are the chocolate solutions company and we're the best in the world, and that's what we're driving at. And so cocoa needs to have the clear role that actually creates a competitive advantage for chocolate business and the chocolatey solutions we're driving. That's the whole setup.

Right now, as we're transitioning into that environment, we're obviously looking very detailed at, okay, how do we further grow our compound business? You may know that we have roughly 65% in chocolate, 35% in compound. We're the largest compound company in the world when you think about it. We barely have spoken about it, but it's a very strong capability in Barry Callebaut that we're now even amplifying with the innovation centre in Singapore and the collaboration that we actually have established there. And in fact, I'm, next week, in Singapore for that reason.

So, I think that's a very important element for us to really think more through how do we leverage cocoa relentlessly and get every bean to the complete utilisation in Barry Callebaut. That's a key underlying strategy in the Group and has been since November 2023.

Now, when you think about third party sales, what we're doing there is we have obviously taken measures early in the year to think about the end-to-end needs in chocolate and, hence, have deliberately taken action as the bean price was exploding to actually mitigate the cash impact in the right way. And with that, we're obviously now see cocoa, because there's obviously a delay between when you buy beans and when you then actually call off the volume into customers, we've seen the erosion that we were talking about, to a large degree, self-designed. So, Peter, do you want to comment on that? Any other thought that you have?

. . . .

Peter Vanneste, Chief Financial Officer
No, I think you talked about powder and liquor and butter. I think powder is, of course, the majority of what we're selling into cocoa. I mean, it's a good business, right? So, the powder prices have strengthened, so it's a profitable business, but we've seen, again, the demand pressure that Peter talked about in terms of de-stocking, some substitutions, customers taking some less cover. And as I mentioned in the presentation, this category is more commoditised than the chocolate products that we're selling. So, some of those pricing impacts are simply more amplified.

. . . .

Telephone Operator
Thank you. We have our next question from Andreas von Arx from Baader Helvea. Please go ahead.

. . . .

Andreas von Arx, Helvea
Yes, good morning. First question is on the dividends. Given your new shareholder structure, I mean, could there be a change in dividend policy, given that maybe your new shareholders do not need, let's say, a constant payout? So, maybe you could lower the dividend payout in order to strengthen the balance sheet? That would be the first question.

And then the second question would be on the tariffs. You also mentioned that they have an impact. Could you elaborate a bit more in detail what you expect from North America, let's say, given the current news flow, what to expect of impact if additional tariffs would come? Thank you very much.

. . . .

Peter Vanneste, Chief Financial Officer
Let me start with your first question, then I'll hand over to Peter for the second one.

On the dividends, yeah, I mean, we confirmed in the Half Year communication that we would maintain a dividend during the transformation at the level that it has been last year. So, that was what we have confirmed at that time. I have the comfort that we can get to our leverage agenda without needing to intervene on that. What shareholders might think about that is not really up to me to judge that. I'm focused on the deleveraging plan and then working within that framework to get that done.

. . . .

Peter Feld, Chief Executive Officer
And maybe on tariffs in the US, I mean, you know that that has an impact on the industry as a whole, not just the chocolate industry. I do think, and I want to reiterate what I said in the H1 presentation, we are actually very local with our business. We have operations in the US, we have operations in Canada, we have operations in Mexico. So, you know, we can actually pivot to, actually navigate this environment in the right way. But in the short term, it had significant

impacts, and Peter alluded to that in the market loss, you know, the market developments that we had in Q3.

As you know, we obviously had like two announcements for 25% taxes between Canada and the US and our customers. As a consequence, we're simply extremely confused and worried about what is happening.

And when you think about our customer base, we're not just having the big FMCG companies, but we have like more than 1200 mid-sized family-owned businesses that obviously are vastly worried about, the announcements and the uncertainty that was created in that. So, it's less a lasting impact on taxes, it's more that people are just worried about what is coming. And that is fundamentally different, I think, for us in Barry Callebaut versus, for example, the car industry, because we are already very local with multiple operations and factories in the US, as well as in Canada, as well as in Mexico, and that's true for cocoa and for chocolate.

. . . .

Telephone Operator
Thank you. We have our next question from Tom Sykes from Deutsche Bank. Please go ahead.

. . . .

Tom Sykes, Deutsche Bank
Yeah, thank you. Morning, everybody. So, just firstly, on customer behaviour, you obviously said there's kind of a lag between what you see in buying and what comes out through Nielsen, but what are you seeing in terms of cocoa content, the chocolate content and products that people are producing? And is that something that you expect sequentially is going to put pressure on the amount of chocolate in product, in aggregate, or are we cycling now some of the effects of what we've seen over the last six months and any differences between manufactures, Gourmet, etc? It would be interesting.

And then just on stock levels, I mean, you mentioned de-stocking, how much do you think de-stocking is an impact on your volumes at the moment? And where are industry stock levels at different points? You know, perhaps, you know, where your larger customers, where are their stock levels versus history, do you think?

. . . .

Peter Feld, Chief Executive Officer
Yeah, let me take the first one, Tom, and then you can see what we do in the rest there. I think on customer behaviour, you know, we already, today, are the largest compound company in the world. There's clearly a lot of innovation underway and, frankly, we've already implemented many projects into the market with our customers and won new business with customers as we're driving those innovations for them in what we call the super compound area and the compound area and other things. But we also see the different angle. And depending by brands, our customers are selective in deciding what they actually do in this environment.

I can tell you that we've just had discussions with a very large customer of ours who's actually pivoting to more innovation in chocolate for respective brands because that is what consumers are expecting to see.

So, we see a whole array of that, but I think that is underpinning the strengths of Barry Callebaut's business model to literally be the, you could say, the engineer for our customers and become the advisor for the brands of our customers to really unlock roles for them, and I think that's the strength that we're driving there.

I would say that this situation has just unlocked an array of innovation opportunities for Barry Callebaut, and we're aggressively going after that because, obviously, we have the capability globally in our R&D centres around the world and with our academies around the world to excite our customers with new innovation that is actually helping them to navigate through this environment. So, I don't see a lasting issue. I in fact would say that crisis usually triggers innovation and that's good for Barry Callebaut. So, that's the first message there. On the de-stocking, Peter, you want to take that?

. . . .

Peter Vanneste, Chief Financial Officer
Maybe just to pick up on what Peter said, I mean, at the end of the day, we're still in a very resilient end consumer preferred taste. And the biggest shifts we're going to see is to compound or even non-cocoa-based solutions, which, by the way, both have a very positive cash effect, so we're going to see some shifts in that front. But we've seen that, historically, through price increases and so on, you have temporary impacts, but consumers do go back to their preferred tastes.

On the de-stocking, I mean, it's difficult to give you specific numbers. We've seen, first of all, and we reported on that in Half Year 1, that customers reduced their cover, first of all.

We've also seen that customers are keeping less stock, again, with high bean prices, waiting for and hoping for lower prices, but also, at the same time, of course, they have similar working capital impacts as we have. So, they also have their CFOs and their cash focus.

So, it's certainly at the lower stock levels than what we have had historically, which obviously has had an impact on what we have been selling out.

. . . .

Telephone Operator
Thank you. I'll now hand back over to Peter Feld for any closing remarks. Thank you.

. . . .

Peter Feld, Chief Executive Officer
Well, thank you very much for joining us this morning and looking forward to the next conference. Thank you very much.

. . . .

END

DISCLAIMER

This transcription has been derived from a recording of the event. Every possible effort has been made to transcribe this event accurately; however, neither World Television nor the applicable company shall be liable for any inaccuracies, errors or omissions.