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Barry Callebaut

Focus for Growth Q&A

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Barry Callebaut

Hein Schumacher, Chief Executive Officer

Peter Vanneste, Chief Financial Officer

Questions From

Joern Iffert, UBS

Alex Sloane, Barclays

Jon Cox, Kepler Cheuvreux

Antoine Prevot, Bank of America

Matteo Lindauer, Vontobel

Samantha Darbyshire, Goldman Sachs

Questions and Answers

Telephone Operator

Hello and welcome to the Barry Callebaut Focus for Growth Action Plan Q&A Session which would be hosted by CEO, Hein Schumacher; and CFO, Peter Vanneste. My name is Nadia and I'll be coordinating the call today. If you would like to ask a question, please press star followed by one on the telephone keypad. I will now hand over to your host, Hein Schumacher, CEO, to begin. Please go ahead.

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Hein Schumacher, Chief Executive Officer

Thank you very much and thank you and good morning, everyone. I hope that you had the opportunity this morning, albeit very early, to watch our on-demand presentation about the Focus for Growth Action Plan. And as you've seen, with Focus for Growth, we are making some clear choices in the company. We are strengthening our fundamentals. We are focusing our resources and stepping up on our position as a solutions provider like, for example, scaling key specialties in market segments that we believe we should win.

With that, we are very much looking forward to your questions and the discussion, of course. And I'll hand now back to the operator to get us started with that.

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Telephone Operator

Great. Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If you would like to remove your question, please press star followed by two. We ask you, please limit yourselves to two questions. The first question goes to Joern Iffert of UBS. Joern, please go ahead.

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Joern Iffert, UBS

Thank you and good morning. Just to double check, can you hear me?

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Hein Schumacher, Chief Executive Officer

Yes, we can hear you very well. Thank you.

Joern Iffert, UBS

Thank you very much. Just two quick follow-up questions on the medium, please. The first one is, one or two years ago, the full-time employees of Barry Callebaut were supposed to be reduced by 15%. Can you give us an update as we stand here and if there are reinvestments happening; in particular, in which areas you want to reinvest in SG&A to implement your new strategy? This would be the first question.

And the second question is, please, on the free cash flow guidance, this 300 to 400 million medium term, what is your assumption here on the interest cost line and also net working capital swings because when usually volumes are growing, net working capital, cash outflow – just to double check these assumptions again. Thank you very much.

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Hein Schumacher, Chief Executive Officer

Thank you. Good morning. I wasn't sure I fully got your first question but let me give it a try. But please, let me know if I'm going the wrong way here.

I thought you were talking about reinvestments – reinvestments in our margin or reinvestments in the P&L. When it comes to SG&A, look, this plan is not about making significant investments in our operating expenses – both not in SG&A as well as in, for example, fixed other costs such as fixed supply chain costs. This plan is very much about prioritising our current expenses and investments behind the priorities that we have talked about. So, talk priorities around country focus, priorities around premiumisation and priorities around scaling up specialties to become that solutions provider that I mentioned in my opening.

So, this plan is built on the foundation that we have but it is very much around the shift. It's about adding focus and it's not necessarily about stepping up a massive investment level in our operating expenses.

Now, I do want to say something about our capital expenditure goal. That is an area where we have historically been a level of around 300. There we will give ourselves a bit of room because we feel that investments are necessary in North America in particular and we've outlined a few details on that one. We are expanding our site in Pennsauken to service the Northeast. We are looking for an expansion of our Brantford site in Canada. And we are looking for a new site in the Midwest. So, that will increase our overall capital expenditure level to a level that is around 350 million or around about, obviously, depending year-on-year. So, that is what I wanted to say about reinvestments when it comes to the cash flow number.

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Peter Vanneste, Chief Financial Officer

Hi, Joern. Good morning. On your question on cash flow and the moving parts behind it, so first maybe on the financing cost, as you asked. As we said earlier this year, we will be landing below 320 for the year, which is 50-60 million down versus last year. We will continue on that trend as we are deleveraging. We're paying back a maturing debt, which is reducing our financing cost. So, we have not given any official guidance on the financing cost itself but you've seen that the PBT, the algorithm is faster than the EBIT algorithm, which means that gives an additional impact, positive impact.

Overall, historically, this company has been, in '23/'24, has been around 200 million net finance costs. This is a direction that we're moving into as well in our plan. Obviously, with some improvements coming from a cash conversion cycle that, in terms of inventories, that is better than what it used to be, to some extent offset as well by evolutions in the year before. But overall, that's the direction where we're going with that and that's why it's an incremental addition to our net profit before tax.

Net working capital, you have seen, I believe, and you're not surprised by that that we qualified our assumption with a GBP 3,000 bean price assumption. We, obviously, have to take an assumption when we do that because that does have an impact if there's brutal movements on it, especially on the working capital side. So, we have assumed GBP 3,000. Now, you know that we already have become more resilient to some of those moves by having lower inventories, by having the financial instruments like the level of credit in place. So, that's not really a big discriminator, assuming that 3,000 flat over the different years in the plan.

Next to that, we have some further improvement on the cash conversion cycle as such, as we're completing our efforts to become more effective and efficient in especially inventories where we have invested and are investing in better systems and tracking to get a better grip and monitoring of where and when to use it and, therefore, be more efficient.

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Joern Iffert, UBS

Thank you very much.

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Telephone Operator

Thank you. The next question goes to Alex Sloane of Barclays. Alex, please go ahead.

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Alex Sloane, Barclays

Yes, hi. Morning all. Thanks for taking the questions and two for me also, please. Maybe just the first one. Thanks for laying out the medium-term algorithm. In terms of next year, fiscal '27, should we be assuming a more meaningful PBT inflection year given the reversal of some of the Gourmet price pressures you outlined in April or does that PBT guidance to the medium term incorporate '27? Just interested in your view on that.

And then the second one actually, just following up on the – maybe for Peter, just on the cocoa bean price assumption, GBP 3,000 per tonne. I guess I'm interested, why are you assuming that level? I think in the past, you've said, structurally, you see the cocoa bean price higher, maybe GBP 4,000 to 5,000 per tonne as a sustainable structural view. Has your view there changed? And maybe could you give us the updated sensitivity on that assumption? I think you've historically talked about a 100-pound-per-tonne move being a CHF 70- to 80-million swing on working capital. Has that sensitivity come down as you've made these efforts to tighten up working capital structurally? Thank you.

Hein Schumacher, Chief Executive Officer

Thanks, Alex, very helpful. I would like to go into your first question on the shorter term guidance and then Peter will take your second question.

On the short term, on FY27, a few overall remarks. The first one is, we have guided on volume and we expect volume to increase roughly 1 to 3%. That is slightly slower than what we would expect in medium term and there's a few reasons for that. First of all, pricing is still in there and we need to see how consumers are responding to likely price decreases that will happen. The timing, of course, to be seen and therefore we do expect some volatility around that and we want to wait a couple of months before we give you more precise guidance on that.

The second reason for guiding slightly lower on volume is, of course, geopolitics. We're seeing the movements in the Middle East. That is an important area for us and that will impact things over time. We need to see how that progresses.

Also, El Niño, we're seeing this year a fairly strong El Niño and that could have impacts on bean prices – something that will become much clearer in the course of June and July. So, we're a bit cautious on volume.

But, at the same time, we have guided to volume growth already in the second half of this year. I can confirm that that is indeed happening. So, we're happy with that. And overall, we are guiding towards a return to volume growth overall for next year, after a few years of decline.

Then on profit. PBT, we would say, in the short term, will go faster up than the midterm algorithm would state. And a key reason for that is also related to the finance costs. So, finance,

as you know, we transfer that or we pass that on to customers in EBIT. So, EBIT will have a downside effect because of that but that's reversed in PBT. And overall, therefore, we expect PBT to grow faster than the midterm algorithm in FY27. But we're cautious, at this point, to give you there a precise number.

On cash, we would say that FY27 would be roughly equal to what we would expect in the midterm. And, of course, on ROIC and leverage, we will be taking steps but you know where we're coming from. So, that is a slow build-up towards the midterm objectives that we say to ourselves.

So, wanted to give you a bit broader view on that FY27 versus the midterm guidance that we've given today. And, for the second question, I'll refer to Peter.

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Peter Vanneste, Chief Financial Officer

Yes. And your second question, Alex, was around the cocoa bean prices. The main answer is that we've assumed for our plan that the bean price remains at the level that it is right now today. We've seen a bit of fluctuation and movement in the last months. So, the GBP 3,000 is not a strange assumption from where we are today. So, that's the main.

What we're looking at is still a supply surplus year, as we've also seen last year. So, there's not a lot of reasons, in the short term, to assume that that's going to change.

Now, as Hein already hinted as well, of course, we're watching the potential effect of El Niño that could have an impact on the bean price. But overall, as we believe that this is the short term view that makes sense, we took that as a starting assumption. Obviously, it could be higher over time, as I mentioned. And we do believe that it could be around GBP 4,000, even a bit higher.

And on that, as I had hinted at also when I was answering Joern, we have all our measures in terms of reduced working with reduced inventories having a higher procurement agility in buying beans earlier, later – especially later having different sources and channels to buy the beans from different origins, having the operation's flexibility to manage it from different origins, which has reduced our dependency to some extent on those bean prices. Of course, it doesn't eliminate it completely but I think we're much better placed on that front than what we were before.

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Alex Sloane, Barclays

Thank you.

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Telephone Operator

The next question goes to Jon Cox of Kepler. Jon, please go ahead.

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Jon Cox, Kepler Cheuvreux

Yes. Good morning guys. Thanks for all the documentation and the Q&A session. They're very useful. A couple of questions for you. Just sorry to go back to FY27, not so much on the PBT. I think everybody can see that financial line is coming down pretty rapidly. Just on the EBIT line, you're guiding for 1%-3% growth on volumes. Would it be correct then to assume that the EBIT growth with, you mentioned, no significant investments but you seem to be hinting at maybe some, maybe EBIT growth will be closer to volume growth in FY2027. That's the first question.

The second question, maybe just on that net financial line, Peter. You said you're going down towards 200. We're below 320 this year. Could you give us a bit more granularity like – I don't know, I'm just looking at my model now – 280 next year, FY27; 250 the year after; 210 the year after? Does that sound reasonable or not?

And then, sorry, just more of a question on that guidance of 2%-4% you've come up with. It's lower than the company's had historically and I understand you're obviously going to focus a lot more on the premium segment. You talk about 1 to 2% growth in the chocolate market. You mentioned GLP-1s in the presentation earlier. Why don't you just give us a breakdown of where you think you can get the 2%-4% because historically, you've always talked about more outsourcing deals, Gourmet growing faster plus emerging markets? You seem to be not talking so much about outsourcing deals and talking a lot more about Gourmet and elsewhere. If you could talk a little bit about that 2%-4% and the building blocks associated with that. Thank you.

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Hein Schumacher, Chief Executive Officer

Thanks a lot, Jon. So, I'll take question one, then I'll refer to Peter for question two and I'll do question three. But I may do question one and three in one go, if that works for you.

So, first of all, on PBT and EBIT and, Peter, please add, of course. So, look, and you talked about the dynamics on finance cost, so we'll not belabour that. What I can confirm is that for FY27, we do see EBIT increase ahead of volume growth. However, we're very cautious at this point to give you there a precise guidance for some of the reasons that I already mentioned, which is obviously around volume.

I do want to state a few things though because you mentioned it on costs. Over the last five years, we've seen cost increases in the company both in SG&A as well as in other fixed cost areas. And we've also seen a significant investment in transformation, in a one-off cost that was

around CHF 250 million. And whilst I would never exclude, of course, taking a one-off if that is necessary, I would overall say that would come down to a much lower level. So, that's something that I wanted to make sure that that's noted.

The second thing is, on the cost levels, I've suggested no major restructuring at this time. However, as I said in my first answer today, I expect – we are very keen to keep costs stable. That means offsetting inflationary pressures. I believe that's something that we should do given the focus that we are bringing to the plan and given the fact that we are shifting our resources behind our most important priorities. So, that's a trend shift but it's not a major disruptive event on the cost side.

So, cautious on volume, EBIT ahead of that but cautious for now. PBT, ahead of the midterm algorithm. And on the cost side, we will be prudent but we're not envisaging a big one-off or a major restructuring. So, I hope that that adds some colour to it.

Then on volume developments, I think, yeah, very good observations. Look, I think there's a few elements here, Jon. So, first of all, as I said on the short term, the 1%-3%, we do expect the market overall to return to growth. But confectionery at a level of 1%-2%, that is a bit lower than what we've indeed seen in the past. So, yes, that is there.

In addition, we've said that for us specifically, outsourcing – I've commented on that at the half-year results as well – outsourcing has come to a halt. It's not increasing as fast. And the reason for that is volume pressure in this sector, our performance in the past on services has not been great. And some of the large companies have, therefore, insourced. Those decisions have been taken and that will impact FY27 growth for us because we expect that to bottom out. But we don't see, after all the conversations that I've had with large customers, that that is a structural trend going forward.

The second thing to say about that is that mid-sized companies, as well as the fast-growing local companies, they don't insource. So, algorithm-wise, that will help us given their strong performance in driving volume there.

Why do we see the 2%-4%, therefore, ahead of confectionery? Well, that's for two reasons. One, the, what we call, adjacent season where chocolate is used as an ingredient – and, by the way, chocolate is a very versatile ingredient – and then you have to think of snacking bars and protein-type solutions that you have to think of ice cream solutions where we still see a faster growth than in the confectionery side. That's the area where we are already strong. But with the strategy that we're pursuing, which is to provide those solutions, including specialities and so forth, we believe that we can tap into those adjacencies in a good way. So, that will add half to a percentage point or something ahead of the chocolate and confectionery growth that I've pointed out.

And then, the third one, over the last couple of years, we have suffered some market share losses. And given our service track record, we believe we can step that up. And all the signals that I'm getting is that will give us an uplift on share just given what we offer in terms of taste, in terms of solution and so forth. And that will take us to the 2%-4% range.

So, there's three components: a slightly slower confectionery chocolate; our ability to capture the adjacencies that are attractive and that we believe will grow ahead; and then a step up in our base and our fundamentals and in our performance to guide execution.

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Peter Vanneste, Chief Financial Officer

And maybe to pick up on Hein's comment, the first one on the EBIT evolution and so on, linking it to the finance costs. We are, as Hein said, for next year, we're also looking at a profit and EBIT evolution that is faster on the EBIT line, that is an evolving line and even faster on the net profit before tax.

What's important to note as well is this impact that the finance cost reduction has on EBIT versus PBT. As you know, it's neutral on PBT. On EBIT, as we reduce finance cost, we price through less finance cost that has actually a negative effect in the short term. So, that's one of the drivers that will make EBIT grow slower than PBT next year because mechanically, it has this impact as the bean price goes down, we price through less on EBIT. So, that's one thing to keep in mind for next year. Having said that, we believe EBIT is going to grow faster than volume.

On the point you made, Jon, on the financing costs, that was quite a specific question. So, I'm not going to quote annual numbers but the direction is, as you said and as I said, it will take a few years to get to that level. But we will see meaningful drops. We've seen, we will see, we are seeing meaningful drops this year. We will see a meaningful drop next year as we're paying back maturities. And you heard me say in the past, there's about 700 million maturing debt average per year over the next years that we've been deliberately spreading when we were raising debt over the past few years.

And then maybe the last thing, next thing to add is that we are evolving very strongly with more flexible debt like the BBF. Of course, that secures the sourcing of the funding when we need it but also, that allows to not use it when we don't need it, which then obviously also helps to keep the finance cost down when the bean prices are all over.

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Jon Cox, Kepler Cheuvreux

Great. Thank you.

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Telephone Operator

Thank you. As a reminder, if you would like to ask a question, please press * followed by 1 on your telephone keypad. We'll pause just a moment. We have a question from Antoine Prevot of Bank of America. Antoine, please go ahead.

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Antoine Prevot, Bank of America

Good morning, everyone, and thanks for taking my questions. So, two for me, please. One, saw a bit of volatility in some trading sessions around cocoa over the past couple weeks. Just to confirm, the move towards the letter of credit system, did it work as you expected or intended to smooth the cash flow or the cash outflow in these volatile trading sessions? I just wanted to confirm a bit on that.

And then second question is around private label. So, you don't really talk about this in your plan but it has been a part of the market in your sub categories, which has been doing pretty well, ultimately, in terms of gaining market share and volume. Is it not part of the market you are really interested to address a bit more? And any indication on how big private label exposure is for you? Thank you.

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Hein Schumacher, Chief Executive Officer

Thanks, Antoine, your questions. I'll refer the first question to Peter and I'll come back for the second one.

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Peter Vanneste, Chief Financial Officer

So, on the letter of credit, Antoine, yes, it is fully in place and it is being used. Now, of course, the first benefit of this letter of credit – again, maybe for people who don't remember – what it does is that instead of, when the bean price increases, instead of having to deposit cash with our brokers as if the bean price goes up and impacts our futures, we work through a way of a bank guarantee. So, it avoids a big cash out in the short term and, therefore, it smoothen the cash flow. And that also allows us to keep less buffer because we don't have those. We basically smoothen those spikes.

So, the main benefit, obviously, is when the bean price goes up and there's cash to be deposited. But, yes, that's working. So, obviously, very recently, of course, that smoothen out the increase that we have. Obviously, it's not very critical at this moment because, first of all, the bean prices are still at very reasonable levels.

And secondly, we're also working, as I mentioned before, with a lower amount of open futures as we're buying later, we're buying more flexibly from different origins. So, versus the past, our exposure is simply also lower. But it works as we anticipate.

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Hein Schumacher, Chief Executive Officer

On your second question, Antoine, it is indeed well-spotted. On private label, we obviously see the growth there. And historically, the company has been focused more on branded consumer products. So, you're absolutely right but we do see that opportunity. And in fact, that is happening today. So, in the algorithm going forward, we do see that as a meaningful segment, particularly in Europe.

It does mean, however, Antoine, that it is, for us, a bit of a different way of working. And let me add some words to that. So, where you normally work with CPGs that would be a direct connect between the customer and ourselves, when you work with retailers, obviously, they have manufacturers to produce their end products. So, it means a three-party cooperation. And historically, again, we've gone to those manufacturers directly.

But, at the moment – and I cannot be specific but I hope to be capable to announce a few things in the next half year or so – is that we are actually developing strong contacts with retailers, define solutions of what they need and then make sure that we can be part of that manufacturing solution. And that's an interesting alley of growth. I like it and a couple of the teams are realising some of those opportunities.

So, thanks for asking the question and, indeed, that is an area that we believe is interesting, predominantly in Europe and later on in North America as well. So, it's a developed market phenomenon, as you well know. But that's where we're focusing our efforts on.

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Antoine Prevot, Bank of America

Thanks a lot.

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Telephone Operator

The next question goes to Samantha Darbyshire of Goldman Sachs. Samantha, please go ahead.

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Samantha Darbyshire, Goldman Sachs

Thank you. Good morning. You already touched on this but you mentioned 1%-2% chocolate confectionery market growth but your addressable market is higher. Can you quantify the actual addressable market growth for your business specifically and maybe go into some of the driving factors of which categories or regions are driving that?

And then also, just you mentioned uncertainty around how consumers could respond to price reductions. Are you able to see anything in the market so far or have there been instances of price reductions in the past that we can take learnings from to extrapolate to this scenario?

And then, my second question is – sorry if you’ve already covered this, I might have missed it – but do you have a leverage requirement before beginning to increase your dividend payment? Does it need to come below that two times target or could you start increasing your dividends, say, when leverage comes below 2.5 times? Thank you.

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Hein Schumacher, Chief Executive Officer

Thanks, Samantha. Let me start on all three and, Peter, please add on for the last one.

So, you’re right. So, the 1%-2% chocolate confectionery, I think it really differs per adjacency. So, on the data that we are seeing, so let me just give you three examples. On ice cream, for example, we’re seeing roughly 2%-4% and that’s what I’ve seen historically as well when I was working in a different capacity. But I believe that’s an attractive segment overall, so roughly that. If you look at energy bars, for example, we’re talking 4% and in some markets, 4% plus. When you think of pastries and particularly the more premium side of that, we’re also looking at roughly 3%-4%.

So, just to give you some indication and, therefore, the question is, of course, how much of our chocolate ends up where. And therefore, given that mix, I find it a bit – not difficult but I find it a bit, yes, cavalier to give you the precise outcome of that. But if we do the mix, we believe, as I said, that, overall, by increasing our exposure to those segments that we believe are attractive where we can offer holistic solutions in combination with specialties, that could add somewhere between half and a percentage point of growth for the confectionery part.

And, as I said, we should not forget that for us, just simply being capable to drive perfect service in itself is a growth lever as well since, particularly in the last one and a half year, we have been below what customers should expect from us. So, I think the combination of the three would lead us to the 2%-4% on the midterm. But in the shorter term, we’re a bit cautious.

I’m happy though to say that the second half of this year, as I said already, but the sector is returning to growth and we are seeing that coming through, aligned with the guidance that we have given you earlier on for this year.

On price reductions, let me just verify if I understand your question correctly. I think you said how fast consumers are responding to the price reductions. We are seeing price reductions coming through, certainly in the Gourmet segment as well as in the price-listed business, as we call it, as well as on the consumer market overall. And many manufacturers have also gravitated to solutions such as chocolate coatings, for example.

And, yes, consumers are responding. As I said, we are seeing a return to growth already in the second half. So, there is a response. But I want to be a bit careful, given the overall development. I've talked about them at least about the direct effects. But, of course, the indirect effects with higher fuel costs and so forth, what is the disposable income that consumers will have? And what is the bean price in the short term going to go given the El Niño effect? So, I just want to be a bit cautious on that. But that said, we are seeing an effect of market growth now that prices are stabilising at a lower level than where they were before.

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Peter Vanneste, Chief Financial Officer

And maybe to pick up on the second question on leverage and then linking you made to the dividend. Obviously, leverage, it's a very key metric for financial health, for ability to invest and all of that. We don't have any covenants related to leverage. We have them on a few other elements but not related to leverage and that's clear.

And also, the dividend, as such, is not linked to any leverage threshold. We mentioned that our retention is consistent – stable or increasing dividend over the next few years but there is no formal link to reaching one or the other level of leverage.

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Samantha Darbyshire, Goldman Sachs

That's really helpful. Thank you, both.

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Telephone Operator

The next question goes to Matteo Lindauer of Vontobel. Matteo, please go ahead.

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Matteo Lindauer, Vontobel

Yes, good morning, everyone. I've got a question around your customers and the outsourcing agreement. You were talking about some large players insourcing. Can you share with us the maturity of the long-term agreement maybe? And also, furthermore, do you expect some of the

customers to pop back the way of volumes or renegotiate the contracts with you? And my question is, is that already included in the new volume and EBIT guidance going forward?

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Hein Schumacher, Chief Executive Officer

Thanks, Matteo, for your questions. We will not disclose particular negotiations of particular insourcing agreements. But, as I said, we have enough reasons to believe that insourcing has happened and I talked about that at the second quarter results as well. And that is something that we've seen coming through but I also believe that the decisions on that have been taken. We see, given the available capacity of some of our customers, that that will also bottom out by the end of 2027. And if there is a rather substantial announcement on that to be made or if it's a material effect, of course, we will disclose. But, at this point, I just want to be careful that we're giving out individual customer dynamics.

Overall, we feel that with the choice of seven global accounts where we have seen some volume decrease in the last two fiscal years, our goal is to, obviously, stabilise that overall and return to growth in the midterm. And that is impacting our plan.

Also, the normal insourcing decisions, apart from any decision that may come up because you never know. I cannot do a precise indication but that bottoming-out effect is included in the 1 to 3. And, overall, the direction is included in the 2 to 4.

Matteo Lindauer, Vontobel

Okay. Thank you very much. And I've got one maybe quick follow-up question on North America, the investments regarding the factories. Is the investment more about capacity expanding or is it just making the process more resilient of the factories in North America and to be more agile? Can you give us more colour on that maybe?

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Hein Schumacher, Chief Executive Officer

Yes. So, on North America, that's a very important market for us and we needed to make some adjustments there. But I'm looking at it through three lenses. I'm looking at it through the short-term, the midterm and the long-term lens. So, let me just give you a few facts.

So, first of all, on the short term, it is indeed about adding flexibility. We are currently converting liquid lines and so forth to also be able to provide chocolate coatings. And that flexibility is really going up. Around 35%, I believe, of our lines at the moment is capable to switch very quickly between the two. And, of course, depending on the level of the price – at this moment, chocolate, we're seeing demand increasing but with the high chocolate price, we're seeing the demand for cocoa coatings increasing. And that inflection point is probably around where the bean price is today.

So, we should be capable and the name of the game in the future will be flexibility. And this is something that I think, strategically, we need to be ready for. And that's part of the upgrades that we're currently doing. We believe that that will add necessary coatings capacity throughout this year but we would still be a bit short of where I would like to be.

Then, in the midterm, a few investments. First of all, although we say it but our Pennsauken factory servicing the Northwest, that is truly additional capacity. So, that's not flexibility; it's additional capacity in areas where we feel that's the right one.

The second one, particularly on Specialties, we're seeing great opportunity on Specialties on fillings, as well as chunks, as well as on what we call nutrition. Now, you have to think of sugar solutions, for example. And that needs additional capacity. So, that's where we anticipate an uptick in the overall capital expenditure level.

And, as mentioned, we are expanding our site in Brantford. So, you have to imagine that currently, we have one major hole with a number of lines in there. We're adding a second hole to that, including more lines.

And then, for the longer term, we're seeing a site in the Midwest. The question is, net-net, whether that's an increase or we would be looking to consolidate. But I don't want to go there right now.

I would say in the short and the midterm, it's about capacity expansion as well as having flexibility between coatings and chocolate production.

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Matteo Lindauer, Vontobel

Perfect. Thank you very much.

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Telephone Operator

Thank you. We have a follow-up from Antoine Prevot of Bank of America. Antoine, please go ahead.

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Antoine Prevot, Bank of America

Thank you for that. Yes, just two other questions. The first one is a bit more, let's say, is your indulgence product a bit better for you. Talking the high-flavanol product launches that you did. Wanted to know, how has been the launch, for instance, of these products or the uptake from

the clients? And, I guess, in general, I think dark chocolate volume trends have been clearly a bit better, probably also because a bit healthier in general, less sugar and so on. What is your exposure to dark chocolate globally and what are maybe your plans to grow that side of the business more?

And second question is on coatings or compounds, whatever you want to call it. It was a big focus previously, was clearly much less mentioned today. Any reason why you talk less about that because, clearly, you have strong capabilities there? And is it just because you're a bit more maybe cautious going forward because maybe there's a bit less interest with competitor price coming down or do you see maybe some customer go back to a bit higher real chocolate content? What's the rationale behind that? Thank you.

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Hein Schumacher, Chief Executive Officer

Thanks, Antoine. Yes, a few remarks. First of all, when you talk about health and wellness, I'm taking it a bit broader but I'm coming back quickly to your question on flavanol. So, we've seen a really significant interest in, what I would call, everything health related. So, those are chocolate in combination with protein, those are low-sugar solutions or different sugar solutions and, indeed, those also include the high-flavanol content chocolate.

On the latter, we're seeing mostly impacts in Asia. So, this is flavanol as a concept is not that well known in Europe and in North America with consumers. It's very well known in Japan. It's very well known in China. And particularly in China this year, we're seeing a significant increase. At this point, I don't have a precise number on how much that's influenced by flavanol. But overall, the growth in China is very significant and this is definitely playing a role in our offering.

If you look at dark chocolate, it's about a third of our volumes. And, yes, that's growing. As I said, also in our powder strategy, we're looking at dark, we're looking at low fat. So, we see, overall, that trend on dark and we see that increasing also as a result of GLP-1. I think I said something about it in the video. And it is important but I wouldn't point to dark as significantly ahead of some of the other forms of chocolate. Even milk chocolate, you can do a lot with; sugar solutions, you can do a lot with; protein solutions. So, I wouldn't call that one out as something that is growing much faster than other parts of the portfolio.

On coatings, actually, it's a good question. And, as I said, coatings, obviously, get a lot more interest when the price of cocoa bean is very high. As I said, there's an inflection point that is around the price where we are when one is financially and economically more favourable than the other. And then there's the question of manufacturers, whether they prefer a coating solution or whether they prefer a full chocolate solution. And that's a question that depends on brand preference, depends on premiumisation and so forth. So, we're having those conversations with them.

But we are, indeed, the largest coatings provider in the world. As I said, adding capacity in the US, because that is where we are short and I believe that in coatings, while economically interesting, there is a significant interest in seeing better taste, a better experience overall. And that is why we are investing in a concept called Cacaomax, which is a part of our premiumisation strategy in each of the segments. So, coatings is a segment but within the segment, you can actually premiumise because the whole idea around sensory, about taste, super, super important and that's where we're focusing on right now more than just talking about coatings as such. We want to improve the experience.

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Antoine Prevot, Bank of America

Thanks for clarifying. And just maybe as a follow-up on flavanol. So, interesting to understand the difference between Asia and the rest but is there anything you can do to increase the awareness of that in Europe or in the US because, ultimately, these markets, clearly, as you said, they are shifting towards a bit more focus on health. So, anything you can do there to drive that?

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Hein Schumacher, Chief Executive Officer

Yes. Obviously, my consumer brand heart is ticking on this because I think it's fantastic. But, at the same time, we are playing our role in the supply chain.

So, the way to think about is I'm very keen – and this is something that we're actually pursuing at the moment on the back of Focus for Growth is we talk about innovation platforms. So, health, for example, is one of the platforms. Taste experience is one of the platforms. Think of cocoa max. When I talk about health, within health, we have a couple of areas. So, think of sugar solutions but also think of flavanol solutions.

So, when we talk with big customers, our role is to provide some of those platforms and then say, "This is what you can say. This is what we see is the benefit. We have great R&D. We can prove those benefits." But ultimately, it's depending on the brands to talk about these with their consumers. And it has just more fertile ground in Asia since there is a base awareness with consumers and less so in Europe and in North America.

But I'm hopeful that that could change but I don't see it as our role necessarily to advertise, of course, for that because that's just not who we are. But we can prove, we can show, we can experience and we're doing all of that good stuff. And that's what we will do more of given it's an important platform in the Focus for Growth direction.

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Antoine Prevot, Bank of America

Thank you so much.

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Telephone Operator

We have a follow-up from Jon Cox of Kepler. Jon, please go ahead.

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Jon Cox, Kepler Cheuvreux

Yes, just to maybe follow up on that last conversation. You talk about coatings but what about the non-cocoa alternatives and are you still looking at that market? Do you think there will be long-term growth in that market after the shock that came to the market from super high cocoa prices? And I wonder if you can just split out your capabilities there in terms of chocolate is, I don't know, half of your volumes; cocoa coating is maybe, I don't know, 40%; non-cocoa, probably just a couple of points? And is that a fair guess?

The second question is just to follow up, I think it's from Alex's question earlier, on this if there is a GBP 100 move in cocoa prices, the impact on Swiss franc free cash flow or working capital. Historically, I think it's CHF 70-80 million but you seem to be alluding to using other things like promissory notes and stuff like that. Has that figure actually gone down there, Peter? Is that what you're trying to tell us? Thank you.

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Hein Schumacher, Chief Executive Officer

Thanks, Jon. I'll take your first question; Peter will take your second one. So, as I said, if you look at the chart, I think it's, if I remember well, it's chart two or three in the presentation that we showed to you this morning, which is about our ambition. And I was really trying to be super clear about that. I'm just now getting the chart number. It's chart number four.

And if you look at that chart and the ambition, it says on the right upper corner that we want to offer a full portfolio across cocoa chocolate, cocoa coatings and non-cocoa solutions. So, I wanted to be very explicit about that. And that means that we will continue our efforts on cocoa replacements. And for us, we are making 'bets' here.

The first one is a partnership that we have with Planet A Foods and that is a cocoa replacer through sunflower seeds. And we believe that is the best opportunity in the market available at this point that comes closest to what we believe is the right taste, what we can offer our customers and so forth and also what we can deal with from a manufacturing perspective. So, it's an interesting partnership and we are seeing first volumes coming through actually in several markets – in Europe, North America, we're also looking at Asia. So, super, super exciting and,

therefore, we will continue to work that. But at this point, volumes, I wouldn't want to quote a certain percentage but, of course, it's small versus the total.

The second one that I want to call out on non-cocoa solutions is the development of cell culture. And also here, we are looking at partnerships where with whom we work and that we could do in different ways, either through equity stakes, through manufacturing agreements. We're bringing that clarity at the moment. And I believe that that is, for the long term, that could be interesting. We should be prepared for that so that we cannot be surprised. So, we're absolutely on that.

So, I see ourselves – and I hope you got that from the ambition – if you take that full portfolio, in combination with specialty, scaling key specialties, it is truly about providing solutions to customers in the area, call it, everything chocolatey. I like that term but my IR people didn't really include it in the script but I like chocolatey. I think that's who we want to be. We want to be passionate about that. We can add to that. And I believe we can take that space if we are very clever about it and if we are making very strong choices.

So, I hope that gives you a bit of a background on that. Peter, on the second point.

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Peter Vanneste, Chief Financial Officer

Yes, the second point, Jon, on this CHF 70 to 80 million. Obviously, the bean price has an impact, as you know, on especially the inventories, right? So, especially inventory side, we have an impact on payables and receivables as well when the bean price moves up or down but that's a bit offsetting each other, to simplify a bit. So, the biggest impact is on inventories.

Indeed, I was commenting on the fact that we've been making good progress on our buying agility, our inventory management, sourcing different origins and so on. That does mean that we see the impact of this rule of thumb of CHF 70-80 million lowering more into the area of CHF 60 to 70 million change in working capital for every GBP 100 move in the bean price.

To note, still, that is a midterm effect, right? The short term, it can be impacted by many things. Its impact smoothed by our letter of credit, as I mentioned before but also depends a bit on when exactly the bean price is moving, right? If it's the middle of the peak harvesting season versus summer, that has a definite impact. But midterm, you can assume that the impact will be a bit lower than what we said before around the CHF 60 to 70 million.

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Jon Cox, Kepler Cheuvreux

Thank you.

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Telephone Operator

Thank you. We have a follow-up from Matteo Lindauer of Vontobel. Matteo, please go ahead.

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Matteo Lindauer, Vontobel

A quick question on the LTI scheme. Could you remind us about the KPIs you're measured on and, for example, are volume and EBIT developments included, for example?

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Hein Schumacher, Chief Executive Officer

Thanks, Matteo. I'm not sure I fully got the question so I'm looking at –

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Peter Vanneste, Chief Financial Officer

Yes. You're asking for the long-term incentives, right?

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Matteo Lindauer, Vontobel

Yes, exactly, the KPIs that are linked to the LTI.

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Peter Vanneste, Chief Financial Officer

Yes. Well, we've got a number of elements within our long-term incentives plan depending on the level in the organisation. First of all, short term, of course we have the volume, EBIT and free cash flow where we're having this across the organisation and it's one of the things we will further simplify and, of course, focus towards the Focus for Growth priorities that we're putting in. This is on the short-term incentives.

If we go to the long-term incentives, we have the element of ROIC, return on invested capital, within our targets. We have the customer net promoter score, NPS, within our targets. We have sustainability within targets. So, that's what is basically driving us and then so, that's adding up to about 60%, those just mentioned. Then next to that, there's the share price, which is basically being linked to the peer group and the performance of Barry Callebaut share versus the peer group. So, again, to summarise, the share price performance and then the different elements that I just mentioned before.

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Matteo Lindauer, Vontobel

Thank you.

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Telephone Operator

Thank you. It looks like we have no further questions. I'll hand back to Hein, CEO, for any closing comments.

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Hein Schumacher, Chief Executive Officer

Thank you. And thanks, everyone, for your interest, of course, in the company as well as for, again, listening to the messages that we have shared earlier this morning. We really appreciate it and we know that we'll be exchanging thoughts and questions in the next couple of days with many of you. We are looking forward to that. I wish you a great day for those who are here in Paris and wherever you may be. Thanks a lot.

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Peter Vanneste, Chief Financial Officer

Thank you.

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