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Victor Balli,
Chief Financial Officer

CFO's view on Group performance

How do you rate the Group's performance in fiscal year 2013/14?

Overall I am pleased: Our volume increased by 11.8%, mainly driven by the acquisition and reaching a new record level of 1.7 million tonnes. On a stand-alone basis, we grew slightly above the market. I am particularly satisfied with the effect of our increased focus on product margins, which translated into a significant improvement of our EBIT.

Does this mean that you can only achieve higher profit at the expense of lower volume growth?

In our company, we see three important growth drivers. However, two of these – outsourcing & strategic partnerships and emerging markets – tend to be somewhat margin-dilutive. We have to offset this effect by pushing higher value products, in particular gourmet and specialty products, and by striving for continuous efficiency improvements. Thanks to this, we were able in the past, on average, to grow our operating result in line with the volume. There are years when one of the components outperforms the other, but in the long run we focus on profitability while significantly outperforming the market growth.

Talking about the acquired cocoa business: Do you consider the integration a success, and where do you stand on the planned synergies of CHF 30–35 million by year 4 of the integration, i.e. at the end of fiscal year 2015/16?

The integration has been a key focus of our company over the last year, and we have managed to grow together as one company. We did not lose any key customer or key people, and we reached most of the major global milestones we targeted. In terms of synergies all related projects are progressing well, and we are continuing to look for more. For this year, we exceeded the targeted synergies of CHF 5 million. Also, largely in line with our initial business plan, the acquired business significantly contributed to our Group EBIT with CHF 26.7 million (excluding transaction and integration costs), despite very challenging cocoa product markets.

Could you give us an update on the impact of the combined cocoa ratio? Why did it perform worse than expected this fiscal year, and what is the expectation for next year?

The combined cocoa ratio is an indicator for the profitability of the cocoa pressing operations. We said at the beginning of this fiscal year that we expected the ratio to improve. However, the oversupply in the market, in particular for cocoa powder, and a slowdown in emerging markets drove cocoa powder prices to historically low levels. At the same time, cocoa butter prices increased significantly, keeping the combined ratio and therefore profitability flat, albeit at a low level. Recently, butter prices softened, but cocoa powder prices have not yet recovered. I therefore expect the cocoa result to remain below average for at least the first six months of the coming year.

While the profitability improved significantly, the cash flow did not follow. Why?

We had two important cash outflows: Once again, we invested in new factories and expanded existing ones to cope with growth way above the market and to prepare for future expansion, particularly in emerging markets. This year, the cocoa bean prices rose very strongly. Although the volumes in our inventories remained constant, despite the growth of the company, the average value of the products in stock was much higher. This resulted in a cash outflow at CHF 279 million for the increased working capital. Our possibilities to avoid such effects from price volatility are limited. However, we have long prepared the company for such a situation, and our strong balance sheet and ample credit lines allow us to operate in such markets without losing flexibility. Nonetheless, we will intensify the focus on free cash flow generation and CAPEX discipline in our company for the next year.

What is your outlook for the coming year?

We are somewhat cautious on the global economy. We expect a slowdown in most regions. Higher raw material and therefore retail prices will likely affect confectionery consumption, at least at the beginning of the year. A very low combined cocoa ratio and fears about Ebola are not helping either. However considering the longer-term industry dynamics and based on our four-pillar strategy combined with our unique position in the industry, we remain optimistic for another good year in our business. Our main focus will be on volume expansion, margin improvements, high cost discipline, cash flow generation and the realization of the announced synergies within the cocoa business.

Could you elaborate on the higher cost discipline, what does it mean and why now?

During the last two years, we have significantly invested into new structures and expansions. This led to a double-digit growth of our fixed costs. This phase is now completed. Therefore, and also given a rather weak economic environment, we decided to keep overall fixed costs at the prior year level. We will put special emphasis on becoming more efficient and standardized in our processes to make more with less.