

DELTA OUTCOMES GLOBAL LEADERS / INVESTMENT STORY

Why We Own Barry Callebaut: Making Chocolate's Supply Chain More Resilient

A bar of milk chocolate begins with two farms. On one, cocoa trees grow under mounting pressure from heat, erratic rainfall, disease and exhausted soil. On the other, much of the climate footprint of milk sits beyond the chocolate factory, on the dairy farm itself.

On 3 September 2026, Barry Callebaut announced a three-year partnership with farmer-owned dairy group Arla Foods. Arla will supply annual farm-level carbon-footprint data linked to the skimmed milk powder it sells to Barry Callebaut in the UK. Farmers who adopt emissions-reducing practices will receive incentive payments.

No volume, emissions baseline, reduction target or financial contribution was disclosed. But the programme illustrates the larger investment case: agricultural data and the ability to change farming practices are becoming operating infrastructure, not simply sustainability reporting.

That small link between dairy farms and a chocolate maker is a doorway into a much larger question. Can the world's largest business-to-business chocolate platform make a fragile agricultural system more visible and resilient - and earn attractive returns by doing so?

A fragile agricultural system is becoming an economic constraint

Cocoa supply depends on millions of farms exposed to climate stress, ageing trees, disease, poverty and weak infrastructure. When harvests fail, the effects travel through prices, manufacturers' working capital, customer service and consumer demand.

Regulation is making visibility more valuable too. The European Union Deforestation Regulation is due to apply to large and medium operators from 30 December 2026. Cocoa placed on the EU market will need to be deforestation-free, legally produced and supported by due-diligence data. Customers also want help reducing supply-chain emissions, coping with volatile raw-material prices and reformulating products without losing quality.

The structural demand is therefore for more than chocolate. It is for dependable supply, credible traceability, adaptable recipes and evidence that environmental and human risks are being reduced rather than merely described.

What Barry Callebaut actually does

Barry Callebaut sits between farmers and the chocolate brands, food manufacturers, bakers and chefs that consumers recognise. It sources and processes cocoa and other ingredients, then supplies chocolate, cocoa products, fillings and decorations to more than 15,000 customers.

Its platform participates in several linked customer needs:

- securing dependable cocoa and other agricultural ingredients;
- providing origin data and traceability for regulatory and customer requirements;
- blending, reformulating and innovating as cost, availability and preferences change; and
- delivering consistent products and service across a global manufacturing network.

Where it fits. Barry Callebaut sits primarily within Delta Outcomes' Nature Innovation theme because its central challenge is how land, crops and other natural inputs are traced, protected and used productively. Climate Action matters because cocoa and dairy farming dominate value-chain emissions. Human Advancement matters because resilient cocoa supply depends on farmer livelihoods and the removal of child labour.

How traceability and expertise can become earnings

For an investment case, a large environmental or social need is not enough. The company must have a credible way to turn that need into customer value, cash flow and attractive returns on capital.

Barry Callebaut's proposed advantage combines presence at origin, diversified sourcing, market intelligence, blending expertise and a global customer platform. It argues that field visits, pod counts and tree-health assessments reveal conditions behind market headlines. That is a company claim, not independent proof of forecasting superiority.

Independent evidence shows both the value and the limit of this position. Supply-chain mapping group Trase found that only 48% of Côte d'Ivoire's 2024 cocoa exports could be publicly traced to a sourcing department. It estimated that Barry Callebaut sourced about 86% of its Ivorian cocoa directly from disclosed cooperatives - stronger than some peers, but not the same as complete farm-level traceability.

The moat, if it exists, is not 'sustainable cocoa' as a finished achievement. It is turning an incomplete system into reliable customer infrastructure: better procurement information, traceability that protects market access and formulation expertise that manages cost and availability.

Dependable sourcing and service can protect volumes. Traceable, lower-impact and reformulated products can deepen relationships and improve mix. Operating discipline must then convert those relationships into cash flow and better returns on capital.

What the latest results tell us

There are early signs of commercial recovery, but not yet a clean trend. In the quarter to May 2026, group volume grew 5.7%, its first positive quarter in more than two years, while the wider chocolate confectionery market declined 4.4%. Global Chocolate volume rose 3.2% and Global Cocoa rose 18%.

Across the first nine months, however, group volume was down 2.8%, revenue fell 12.7% in Swiss francs, and management still expected recurring operating profit to decline by a mid-teens percentage for the year. Some cocoa recovery may reflect restocking and unusually strong product margins.

Management's Focus for Growth plan, launched in June 2026 under new CEO Hein Schumacher, targets 2-4% medium-term volume growth, mid-to-high single-digit recurring operating-profit growth, CHF300-400 million of annual free cash flow and an 11-13% return on invested capital. These are forward-looking company targets, not achieved outcomes. The investment test is whether service recovery and higher-value solutions can produce durable cash returns after the exceptional cocoa-price cycle.

A financially strong business? The honest starting point

A compelling supply-chain story only matters if the company behind it can fund it. Here the honest starting point is that Barry Callebaut's most recent full year was reshaped by the sharpest cocoa-price shock in decades, and its profitability, earnings and shareholder returns over that period were genuinely weak, not merely soft - the house standard is to say so plainly before turning to the evidence that gives us some confidence the picture is turning.

Profitability - the case ahead. Barry Callebaut's own recurring return on shareholders' equity - essentially, how much profit it generates for every Swiss franc shareholders have invested - fell from 14.7% in fiscal 2023/24 to 9.5% in fiscal 2024/25, and recurring return on invested capital (ROIC) fell from 11.0% to 7.9% over the same period. Independent estimates put ROIC on a slightly different basis at 12.4% in fiscal 2023 and 10.4% in fiscal 2024, before falling below Delta Outcomes' roughly 9% cost-of-equity hurdle to 8.9% in fiscal 2025 and a forecast 8.6% in fiscal 2026 - two consecutive years below the return we require. The EBIT margin recurring told the same story, compressing from 6.8% of sales revenue in fiscal 2023/24 to 4.8% in fiscal 2024/25, as cocoa-linked pricing inflated the revenue base faster than profit could follow. Analyst modelling expects margin to trough near 4.5% in fiscal 2026 before recovering toward 6% in fiscal 2027, with ROIC recovering to around 11.8% in fiscal 2027 and

toward 15% by 2030 if Focus for Growth's own 11-13% ROIC target is achieved - a credible path, but a forecast, not yet a result.

Earnings growth - the case ahead. The historical record does not support the case on its own. Recurring net profit fell 35.9% in local currencies (40.2% in Swiss francs) to CHF249.6 million in fiscal 2024/25, down from CHF417.5 million the year before, and recurring earnings per share fell 40.7% to CHF45.1 from CHF76.0 - even as reported sales revenue rose 42.4% in Swiss francs on cocoa-linked pricing pass-through. That is the opposite of the pattern we look for as evidence of quality: profit shrinking sharply while revenue surged, driven by input-cost volatility, negative volume and investment behind digital and service capability. The most recent quarter points a different way without yet resolving the tension: nine-month group volume to May 2026 was still down 2.8%, but volume in the third quarter alone grew 5.7% - the first positive quarter in over two years, and ahead of consensus - while management left full-year guidance for a mid-teens recurring EBIT decline unchanged, disappointing hopes that the volume beat would flow through to profit. Sell-side and company guidance point to a return to mid-to-high single-digit recurring EBIT growth over the medium term under Focus for Growth, but that is a management target and an analyst model, not a delivered result, and we will test it quarter by quarter.

Shareholder returns - the case ahead. Barry Callebaut's shares have not delivered the kind of return we would call a demonstrably strong track record: independent analysis places both the three-year and five-year total shareholder return in negative territory, and the shares fell 21.5% over fiscal 2024/25 alone, to CHF1,080 at the year-end, as the price-earnings multiple compressed from 39.7x to 31.9x. Year-to-date total return remained around -7.1% as of the most recent quarterly update, even after a sharp but volatile rebound tied to the Focus for Growth launch and the return to volume growth. Set against that, the Board maintained the dividend at its CHF29.00-per-share floor for a second consecutive year through the BC Next Level and Focus for Growth transition, a payout ratio of around 84% of recurring earnings - a genuine commitment, though one that leaves limited headroom if recurring profit does not recover as guided. If management's medium-term ROIC and free-cash-flow targets are realised and the shares' current discount is not competed away, the return case improves materially; if the volume recovery proves to be restocking rather than durable demand, it will not.

Taken together, this gives us a credible, evidenced path to the returns this thesis needs - a genuine, if early, operating inflection, a Board that has protected the dividend through the worst of the shock, and disciplined deleveraging - though one that is not yet proven in the reported numbers. That is a materially different position from a company with an already-demonstrated record of compounding shareholder returns, and we will judge Barry Callebaut on whether fiscal 2026 and 2027 close that gap.

Leadership we can trust, with a clear engagement priority

A good business also needs to be well led, and here Barry Callebaut's leadership has just been renewed. Hein Schumacher, formerly CEO of Unilever and of Royal FrieslandCampina, became Chief Executive in January 2026 following an orderly, board-led global search, succeeding Peter Feld once the BC Next Level programme he led was substantially complete. The Chief Executive and Chairman roles remain separate - Schumacher is not a Board member, and Patrick De Maeseneire chairs the Board as a non-executive - and every director stands for re-election annually. There is only one class of listed stock, with each share carrying a single vote, though a reference shareholder linked to the Jacobs family holds just over 30% of capital and has a family member on the Board.

Executive pay is genuinely performance-sensitive rather than a formality: the annual incentive paid out at only 42% of target in fiscal 2024/25 on weak volume and EBIT, well below prior-year levels, and the three-year, cliff-vesting long-term plan - weighted across relative share price, return on invested capital, customer satisfaction and sustainability - vested at zero as recently as the fiscal 2022/23 grant when performance fell below threshold. Clawback provisions apply for two years after vesting, and a 72% say-on-pay approval in 2024, up from 61% the year before, suggests shareholders increasingly endorse the structure.

Set against this, our clearest engagement priority is Board independence under Delta Outcomes' stricter, tenure-and-affiliation-based standard. Three of the eight directors - Chairman Patrick De Maeseneire, a former Group CEO; Fernando Aguirre, who chairs the Nomination and Compensation Committee after twelve years' tenure; and Nicolas Jacobs, a former Barry Callebaut executive with a family link to the 30.1% reference shareholder - are classified Not Independent on this basis, even though the company's own disclosures treat all but the Chairman as independent. That reclassification leaves overall Board independence at 62.5%, below our two-thirds threshold; leaves the Board without an independent Chair or Lead Director; and means the Audit, Finance, Risk, Quality and Compliance Committee is not composed solely of independent directors. Gender diversity, at 25% female, also falls short of the 30%-plus benchmark we look for, and no full-Board effectiveness review is yet publicly disclosed, although the Board has refreshed meaningfully - three of the eight directors joined between 2022 and 2024. Capital allocation has also been genuinely uneven rather than a clear strength: return on invested capital fell below our cost-of-equity hurdle in fiscal 2025 and is forecast to remain there in fiscal 2026, before an expected recovery from fiscal 2027, alongside continued deleveraging - including a EUR849 million bond buyback completed in June 2026 - that supports the path back below 3.0x net debt to EBITDA.

Taken together, this gives us confidence that Barry Callebaut is led by a genuinely performance-sensitive pay structure and a newly installed, externally recruited Chief Executive with a credible turnaround mandate, alongside a clear and specific ask of the Board

on independence, effectiveness disclosure and diversity that we will continue to press as Focus for Growth is delivered.

Doing well requires hard evidence

Barry Callebaut's 2024/25 Forever Chocolate report says 85.6% of cocoa in its direct supply chain was traceable to farm level and 81.8% of sourced raw-material volume was demonstrated not to be linked to deforestation. It also reports:

- 1.5 million cocoa farms mapped and a 1,200-hectare assisted-natural-regeneration pilot;
- 457,592 tonnes of carbon removals through agroforestry;
- 51,420 identified child-labour cases under remediation and 30,080 remediated; and
- CHF38.5 million in premiums distributed by the Cocoa Horizons Foundation.

These measures are relevant because they connect operational capability to environmental and human outcomes. They are not equivalent. 'Mapped farms' records reach. 'Under remediation' records a response, not a resolved case. Carbon removals depend on methodology and permanence. The company also changed the calculation for certified or verified cocoa during the year.

The company says its reporting received third-party assurance, but its scope and definitions still matter. Inputs, reach, actions and outcomes should not be conflated.

The human outcome matters economically as well as morally. The company reports that 557,739 farmers in its supply chain were supported above the World Bank's international poverty line. That is not the same as earning a living income. Progress should be judged through farmer income, yield and climate-resilience measures alongside traceability, not through certification volume alone.

Ownership includes challenge

Ownership means requiring management and the board to explain where progress is real, where evidence is incomplete and how incentives reflect long-term value creation.

The questions are practical. How much indirect sourcing can be traced to farms? What is independently assured? Are farmer livelihoods approaching a living income? Are child-labour cases being resolved faster than new cases are found? Can service and leverage improve without weakening investment at origin?

These questions belong inside the thesis. Traceability is not durable if it works only for the easiest direct supply. A resilient system must work for farmers, customers and shareholders over the same horizon.

Value, decision, and tension

We own Barry Callebaut because three things need to line up, and at this point they are lining up unevenly rather than uniformly: a durable, structural need for traceable, resilient agricultural supply chains that shows no sign of easing; a financial picture that, after a genuinely damaging cocoa-price shock, shows real but early signs of an operating inflection - a return to volume growth, a protected dividend and continued deleveraging - without yet a proven recovery in profit, earnings or shareholder returns; and a Board with sound structural fundamentals and a newly installed, credible Chief Executive, alongside a clear and specific independence gap under our stricter standard that we continue to press. Few of the businesses we own ask us to hold a turnaround judgement open on two of three pillars so explicitly.

We do not own it on the assumption that every farm mapped resolves a child-labour case, that fiscal 2026's volume recovery will repeat without further margin give-back, or that Focus for Growth's targets will be delivered on the timetable management describes. The central tension is that the market must decide how much of the recent volume and share-price recovery reflects a genuine change in the underlying business under new leadership, versus restocking after an exceptional price cycle and sentiment recovering faster than the fundamentals justify. Valuation discipline - not the appeal of a newly installed turnaround Chief Executive, and not enthusiasm for the traceability theme alone - is what should govern position sizing here.

What could break the chain

A number of things could weaken this thesis, spanning demand, the balance sheet, financial-quality durability, governance and the impact case itself. We watch for all of them:

- Demand and execution risk. The scale of Barry Callebaut's platform transmits volatility as much as it dampens it. The 2023-24 cocoa shock exposed fragile supply, stretched working capital and service failures, particularly in North America, where nine-month volume was still down 7.6% despite returning to growth in the latest quarter. Whether the third-quarter volume rebound reflects durable demand recovery or one-off customer restocking following the earlier price correction remains genuinely contested among analysts, and Gourmet continues to face intense competitive pressure that requires further margin-dilutive investment.
- Balance-sheet and leverage risk. Net debt/EBITDA recurring peaked at 6.5x in February 2025 and has since been brought down to around 4.5x through working-capital actions and a EUR849 million bond buyback, but the leverage ambition assumes cocoa bean prices around GBP3,000-5,000 a tonne, so continued deleveraging cannot be separated from

commodity conditions that have already rebounded from 2025/26 lows amid emerging El Niño risk to the next crop.

- Financial-quality durability risk. Recurring ROE, ROIC and EPS have not yet demonstrated the recovery Focus for Growth targets on a reported basis - the two most recently completed years both show ROIC below our cost-of-equity hurdle, and fiscal 2025/26 profit guidance was left unchanged even after a volume beat. A single strong quarter, or a new CEO's credibility, is not proof that margins and earnings can outpace revenue growth on a sustained basis.
- Governance risk. Three directors, including the Chairman, remain classified Not Independent under our stricter tenure-and-affiliation standard, leaving the Board short of two-thirds independence and without an independent Chair or Lead Director; the new Chief Executive's strategy is barely six months into execution and has not yet been tested through a full cycle; and the 30.1% reference shareholder's Board presence via a family-linked director is a concentration factor to continue monitoring.
- Impact-case risk. Incomplete indirect sourcing can conceal deforestation or labour problems even when direct sourcing improves; 'under remediation' records a response to child labour, not a resolved case, and the ratio of cases resolved to cases newly identified needs to keep improving. The Arla partnership measures emissions and rewards practices but has not yet reported reduced emissions or improved farmer economics, and EU deforestation regulation due from 30 December 2026 may reward Barry Callebaut's traceability capability just as readily as it exposes gaps in it.

The thesis would weaken materially if the recent volume recovery proved to be restocking rather than durable demand, if recurring margins and returns failed to recover toward Focus for Growth's targets over the next two to three fiscal years, if Board independence and effectiveness disclosure showed no further progress under the new Chief Executive, or if verified farmer and traceability outcomes failed to keep pace with Barry Callebaut's own reporting claims. It would also weaken if today's apparent valuation discount to fair value proved to be compensating, correctly, for risks that current estimates do not yet fully capture.

The ownership test

Barry Callebaut's opportunity begins with structural demand for resilient, traceable agricultural supply chains. Its possible advantage lies in origin reach, data, formulation expertise and a global customer platform. Those capabilities can protect volume, improve mix and support cash conversion - but only if operational execution and capital discipline recover under new leadership.

The risks are part of the same chain: commodity volatility, leverage, service failures, an unproven turnaround and hidden environmental or human harm. The evidence must ultimately

appear in normalised free cash flow, return on invested capital, reduced deforestation exposure, credible emissions reductions, better farmer livelihoods and a Board that closes the independence gap it currently holds open.

Barry Callebaut is not a story about chocolate becoming virtuous, and it is not yet a story about a fully proven financial turnaround or a settled governance structure. It is a test of whether a scaled platform - now under new executive leadership, with a protected dividend and a credible but unproven Focus for Growth plan - can make agriculture more visible and resilient, earn attractive returns, and be governed in a way that continues to close the gap between its own disclosures and Delta Outcomes' stricter standard. The thesis will be proven in customer retention, normalised cash flow and returns on capital, continued board refreshment, and impact outcomes that survive independent scrutiny - not in any one of those three pillars alone.

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