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Published on Industrial Maintenance & Plant Operation (<http://www.impomag.com>)

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Robert Barr, Associated Press Writer

LONDON (AP) — Kraft Foods Inc. on Monday proposed a 10.2 billion pound (\$16.7 billion) takeover of Cadbury PLC, but the offer was immediately rejected by the British maker of chocolate, gum and candy.

Cadbury shares shot up 41 percent to 803.5 pence at midday on the London Stock Exchange, about the minimum analysts suggested Kraft would have to pay to clinch a deal.

Cadbury said the offer undervalued the company, and expressed confidence in its "standalone strategy and growth prospects as a result of its strong brands, unique category and geographic scope."

Kraft was undeterred, however, and said it would continue to seek a transaction which Cadbury's board could support.

Kraft, whose brands include Velveeta cheese product and Oreo cookies, said it had proposed paying 300 pence in cash and 0.2589 new Kraft Foods shares per Cadbury share, valuing Cadbury shares at 745 pence.

That represents a 31 percent premium over Cadbury's closing share price of 568 pence on Friday.

Cadbury has a 10.3 percent share of the world confectionary market in 2008, second only to Mars Inc. with 14.8 percent. Kraft was fifth at 4.5 percent.

Cadbury has 28.4 percent of the world gum market, Kraft has 0.1 percent.

Graham Jones, analyst at Panmure Gordon & Co., recommended that shareholders hold out for at least 800 pence a share.

"A key question is whether there is a counter bid, most likely from a Nestle-led consortium," Jones said. "However, we see the most likely scenario being Kraft being successful on improved terms."

Jeremy Batstone-Carr at Charles Stanley & Co. said it might take more than 800 pence.

"Note that the Kraft offer values Cadbury on less than 2 times sales, significantly lower than the 2.3 times sales it paid for Danone's biscuit operations or the ... 3.7 times sales paid by Mars for Wrigley," Batstone-Carr said.

Kraft, based in Northfield, Ill., said the combination would create "a global powerhouse in snacks, confectionery and quick meals," with leading positions in

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developing markets including India, Mexico, Brazil, China and Russia.

"This proposed combination is about growth. We are eager to build upon Cadbury's iconic brands and strong British heritage through increased investment and innovation," said Irene B. Rosenfeld, chairman and CEO of Kraft Foods.

Kraft may be in for a fight.

"Speculation is already mounting that Hershey and Nestle may come together in one form or another to counter bid, with Nestle potentially interested in Cadbury's gum business and Hershey in the chocolate-confectionery brands, with other interested parties," said Darren Shirley, analyst at Shore Capital.

The Unite union called for meetings with both Kraft and Cadbury to explain the impact of the proposed combination in the United Kingdom.

Kraft indicated that it would reverse Cadbury's intention of closing its Somerdale plant near Bristol in southwestern England, a promise the union treated with caution.

"It is essential that no one makes rash promises which give false hope to the work force, and in particular to our members under threat of redundancy at the Somerdale plant," said Jennie Formby, national officer of Unite.

Cadbury, nearly tripled its net profit in the first half of the year as the company pocketed a big gain from the sale of its beverage business and chocolate consumption rose.

Net profit in the first half was 313 million pounds, compared to 113 million pounds during the same period a year earlier. Revenue was up 13 percent to 2.8 billion pounds, or up 4 percent on a constant currency basis.

The company, formerly Cadbury Schweppes, demerged its Americas Beverages business last year and disposed of its Australia Beverages business to Asahi Breweries of Japan in April.

Kraft's second-quarter profit rose 11 percent to \$827 million, though revenue fell 5.9 percent to \$10.16 billion as the dollar's strength weighed on international sales.

Source URL (retrieved on 08/20/2014 - 10:13am):

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