Cadbury Agrees To $19.5b Kraft Takeover

Robert Barr, Associated Press Writer

LONDON (AP) — British candy company Cadbury agreed to a fattened $19.5 billion takeover offer from U.S. food group Kraft in a deal that would create the world's biggest chocolate maker.

The board of Cadbury PLC, maker of Creme Eggs and Dentyne gum, gave up a four-month fight to remain independent and on Tuesday recommended shareholders take Kraft's offer of 840 pence ($13.78) per share, amounting to 11.9 billion pounds.

Cadbury shareholders would also get a 10 pence dividend previously promised by Cadbury.

The revised bid is for 500 pence cash and 0.1874 new Kraft shares for each Cadbury share, still somewhat less than some analysts believed the company is worth but 50 percent higher than Cadbury's market value before Kraft went public with its approach in September.

A previous offer of 10.5 billion pounds ($17.1 billion) valued Cadbury at about 770 pence, but was dismissed by Cadbury as "derisory."

Kraft Foods Inc., maker of Toblerone chocoloate, Velveeta processed cheese and Oreo cookies, still has to persuade a majority of Cadbury shareholders to accept the deal, and the door remains open until 7 a.m. (0200 GMT) Monday for The Hershey Co. to jump in with a rival bid.

The combined companies would be the world leader in chocolate and sweets, Kraft said, and No. 2 globally in the high-growth gum market. But some in Britain are disgruntled at the prospect of a historic brand losing its independence.

Cadbury's roots go back to the grocery store opened in 1824 by John Cadbury in Birmingham. A Quaker, Cadbury believed cocoa and drinking chocolate were healthy alternatives to alcohol, considered to add to the miseries of the working class.

Its Dairy Milk chocolate brand was launched in 1905 as a challenge to dominant Swiss chocolate makers.

"We have great respect for Cadbury's brands, heritage and people. We believe they will thrive as part of Kraft Foods," said Kraft's CEO Irene Rosenfield.

"This recommended offer represents a compelling opportunity for Cadbury shareholders, providing both immediate value certainty and upside potential in the combined company."

Cadbury Chairman Roger Carr, who had led a spirited defense against Kraft's previous offer, said he believed the deal "represents good value for Cadbury shareholders."

Cadbury shares were up 3.3 percent at 834 pence following the announcement.

"Although we always considered that 850 pence could be enough to win shareholder support we have to admit surprise at how meekly Cadbury has apparently acquiesced," said Jeremy Batstone-Carr, analyst at Charles Stanley & Co.

Only last week, Batstone-Carr added, the Cadbury chairman "had confidently predicted that the company's share price could be over 10 pounds (1,000 pence) in due course."

Kraft predicted pretax cost savings of at least $675 million a year once the combination has been working for three years.

Tuesday was the deadline for Kraft to raise its offer. Cadbury shares moved above 800 pence on Monday, indicating the market was looking for Kraft to jump to that level or higher.

The British company had fought hard against Kraft's initial offer announced in December, rejecting it as a "derisory" bid from what it considered an unfocused, underperforming conglomerate.

The agreed price is 13 times Cadbury's earnings before interest, taxes, depreciation and amortization; Cadbury had argued that similar recent takeovers in the sector had been for 14 times EBITDA or more.

Feb. 2 is the deadline for Kraft to win acceptance from holders of a majority of Cadbury shares.

David Cumming, head of U.K. equities at Cadbury shareholder Standard Life, had said Monday that Kraft needed to aim above 900 pence to secure support from long-term shareholders. But on Tuesday, he signaled the fight was over. "I probably won't go against the view of Cadbury's management," he told the BBC.

Kraft, based in Northfield, Illinois, had raised the cash portion of its offer earlier this month from 300 pence to 360 pence after selling its North America pizza business to Nestle for $3.7 billion.

Billionaire investor Warren Buffet, whose Berkshire Hathaway is Kraft's biggest shareholder, had warned against offer any more shares for Cadbury. Buffett declared last year that he believed Kraft's original offer for Cadbury was "pretty full."

Kraft said the latest offer reduces the share portion, and thus won't need to be approved by its shareholders.

Cadbury has some 45,000 employees in 60 countries, including 5,600 staff in British and Irish plants. The amount of debt being taken on to fund the deal is raising worries about cutbacks.

"This is a very sad day for U.K. manufacturing. A successful, iconic, independent U.K. brand will now be owned by a giant company with massive debt," said Jennie Formby of the Unite union, which had campaigned against Kraft's offer.

"We have very real fears about how Kraft will repay its debt, particularly as it has ratcheted it up still further in order to purchase Cadbury," Formby said.

Prime Minister Gordon Brown told reporters that the government was "determined that the levels of investment that take place in Cadbury's in the United Kingdom are maintained."

"We are determined of course, that, at a time when people are worried about their jobs, jobs in Cadbury can be secured."

The report of a deal drew a sharp response from Felicity Loudon, a great granddaughter of Cadbury's founder Egbert Cadbury.

"I don't know what they're doing," Loudon told Sky News. "Kraft will have to asset strip to afford anything."