Billionaire Buffett Buys Heinz For $23B

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NEW YORK (AP) — Billionaire Warren Buffett, the most closely watched investor in America, is putting his money in ketchup, agreeing Thursday to buy H.J. Heinz Co. for $23.3 billion in the richest deal ever in the food industry.

For his money, the Oracle of Omaha gets one of the nation's oldest and most familiar brands, one that's in refrigerators and kitchen cupboards all over the U.S.

The deal is intended to help Heinz accelerate its expansion from a dominant American name into a presence on grocery shelves worldwide. The Pittsburgh-based company also makes baked beans, pickles, vinegar, Classico pasta sauces and Ore-Ida potatoes, as well as a growing stable of sauces suited to regional tastes around the world.

Buffett's investment firm, Berkshire Hathaway, is teaming with another firm, 3G Capital, to snap up Heinz, which had long been a subject of takeover speculation. New York-based 3G is best known for its acquisition of Burger King and its role in the deal that created Anheuser-Busch InBev, the world's biggest beer maker.

The deal, expected to close in the third quarter, sent shares of Heinz soaring. The company's stock price was up nearly 20 percent, closing at $72.50 Thursday on the New York Stock Exchange.

Berkshire picked up steam, too. Its Class A shares gained $1,490, or about 1 percent, to close at $149,240.

Berkshire remains the most expensive U.S. stock but it's still below its all-time high of $151,650, reached in December 2007. That came before the financial turmoil of 2008 and just after an exceptionally profitable quarter that was helped by a $2 billion investment gain.

The plans to take Heinz private apparently began to take shape on a plane in early December. In an interview with CNBC, Buffett said he was approached at that time by Jorge Lemann, a fellow billionaire and a co-founder of 3G. The two had known each other since serving on the board of Gillette about 12 years ago.

Soon after that encounter, two of 3G's managing partners traveled to Pittsburgh to have lunch with Heinz CEO William Johnson and raise the prospect of buying the 144-year-old company.

"The offer was such that I simply felt compelled to take it to my board," Johnson said at a news conference Thursday.

Over the next several weeks, Johnson said, the board worked out details of the transaction.

Berkshire is putting up $12.12 billion in return for half of the equity in Heinz, as well as $8 billion of preferred shares that pay 9 percent, according to a filing with the Securities and Exchange Commission. 3G Capital will run Heinz, and Berkshire will be the financing partner.

By taking the company private, Johnson said, Heinz will have the flexibility to react more quickly without the pressure of satisfying investors with quarterly earnings reports. The company's push to go global began more than a decade ago, and about two-thirds of its revenue already comes from outside the U.S.

Heinz is increasingly focusing on emerging markets, where it expects to get about a quarter of its sales this year. Like other packaged food companies, it is betting that staking an early claim in countries with multiplying ranks of middle-class customers will secure its own future.

Although ketchup and sauces still account for just under half its sales, Heinz has expanded over the years to include a much broader array of products across 200 countries, including ABC soy sauce in Indonesia, Quero tomato sauces and vegetables in Brazil and Complan nutritional drinks in India. In 2010, the company bought Foodstar, which makes Master brand soy sauce and fermented bean curd in China.

The business reaches back to 1869, when Henry John Heinz and neighbor L. Clarence Noble began selling grated horseradish, bottled in a clear glass to showcase its purity. It wasn't until 1876 that the company introduced its flagship product, the country's first commercial ketchup.

Heinz didn't become a public company until years later, in 1946.

Heinz is a prize because it has the type of name recognition that takes years to build, said Brian Sozzi, chief equities analyst for NBG Productions. One testament to the strength of the brand has been the company's ability to raise prices even in competitive markets, he said.

"There isn't going to be another Heinz brand," Sozzi said.

Johnson stressed that Heinz would remain in its native Pittsburgh as a condition of the agreement with 3G and Berkshire Hathaway. The only change will be when Heinz no longer appears in stock listings.

Although 3G Capital has a record of aggressively cutting costs at businesses it acquires, managing partner Alex Behring said Heinz is different because the business is healthy and sales are rising. But that wasn't a guarantee that jobs won't be cut.

The company earned $923.2 million on revenue of $11.65 billion in its last fiscal year.

The more Heinz is able to grow, the "safer people will be," said Johnson, who has been CEO for 15 years.

As for management changes, including his own tenure, Johnson said there have not yet been any discussions.

Buffett did not immediately respond to a message Thursday from The Associated Press. He has recently said that he's been hunting for elephant-sized deals. At the end of last year, he told CNBC that he had about $47 billion in cash available.

Berkshire's biggest acquisition ever was its $26.3 billion purchase of BNSF railroad in 2010.

Last year, Buffett started building a newspaper company with the $149 million acquisition of 63 Media General newspapers and several other small or mid-sized newspapers. Berkshire also bought the Prudential and Real Living real-estate franchises nationwide last fall.

The Heinz deal and the American Airlines-US Airways merger add to an already strong start for merger activity this year. Global merger activity has been tepid since 2007, when $4.6 trillion in deals were announced, according to Dealogic. Last year's total was $2.7 trillion.

The deal is a departure for Berkshire Hathaway. Generally, Buffett prefers to buy entire companies and then allow the businesses to continue operating much the way they did before. Berkshire has also helped finance deals before — most recently during the financial crisis of 2008, when he made lucrative deals for Berkshire when few other companies had cash.

Heinz shareholders will receive $72.50 in cash for each share of common stock they own. Based on Heinz's number of shares outstanding, the deal is worth $23.3 billion excluding debt. Including debt, it's worth about $28 billion.

The price for the deal represents a 20 percent premium over Heinz's closing price of $60.48 on Wednesday. Heinz said the deal was unanimously approved by its board.

"It's our kind of company," Buffett said in the CNBC interview, noting that Heinz's signature ketchup has been around for more than a century. "I've sampled it many times."

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