

Kraft Sells Pizza Unit to Nestle, Raises Cadbury Cash (Update1)

By Thomas Mulier and Matthias Wabl



Jan. 5 (Bloomberg) -- Kraft Foods Inc. agreed to sell a U.S. pizza unit to Nestle SA for \$3.7 billion, raising cash to improve its offer for Cadbury Plc after Nestle ruled itself out of the bidding for the U.K. candy maker.

Nestle said today it won't join a bid for Cadbury, while Kraft said it is offering more cash in place of shares after requests from some Cadbury shareholders that it do so.

The sale gives Kraft more firepower in its attempt to get Cadbury investors to accept its 10.6 billion-pound (\$17 billion) offer, and may

hinder Hershey Co., which analysts had been speculating might team up with Nestle to bid for the maker of Dairy Milk chocolate. Cadbury fell as much as 2.4 percent in London trading as the chances of a bidding contest receded.

"It's a one horse race now for Cadbury: It's just Kraft," said James Amoroso, a food industry consultant based in Walchwil, Switzerland. "It was touch-and-go already for Hershey. Now, forget it."

Cadbury shares were down 12 pence, or 1.5 percent, to 793 pence at 8:47 a.m. U.K. time. That's still 6.4 percent more than the 742 pence value of Kraft's offer because some analysts expect the bid to be raised to placate shareholders.

Kraft said it will use an amount equivalent to the net proceeds from the pizza sale, which it estimates to be 60 pence per Cadbury share, to fund a partial cash alternative to its offer for the Trident gum maker. Kraft also extended the deadline for shareholders to accept its bid until Feb. 2, the last day in the 60-day timetable set by the U.K. Takeover Panel.

'Not Good Enough'

"Raising the cash component by 60 pence is still not good enough -- the problem is the overall offer is still at a discount to Cadbury's current share price," said Warren Ackerman, an analyst at Evolution Securities Ltd. in London.

Hershey doesn't have enough cash to fund its own offer for Cadbury, according to Jon Cox, an analyst at Kepler Capital Markets in Zurich. The maker of Twizzlers candy would still find it difficult to bid for the U.K. company even if it joined with Ferrero SpA, the maker of Nutella spreads, he said.

"This raises the bar significantly for Hershey," said Andy Lynch, who manages \$1.8 billion at Schroder Investment Management in London. "The great hope Cadbury investors had that Nestle would ride in on a white horse and save them will not materialize."

Vevey, Switzerland-based Nestle said the purchase of brands including DiGiorno and Tombstone will make it the world leader in frozen pizza with annual sales of 3 billion francs (\$2.9 billion) from that product. The food maker said it estimates the Kraft unit's 2009 earnings before interest, tax, depreciation and amortization at \$279 million, and the purchase will boost its earnings per share in the first year after completion.

Nestle fell 15 centimes, or 0.3 percent, to 50.80 Swiss francs at 9:47 a.m. in Zurich trading.

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