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## Kraft Boosts Cadbury Pursuit With More Cash as Nestle Drops Out

By Tom Mulier and Andrew Cleary

Jan. 5 (Bloomberg) -- Kraft Foods Inc. bolstered its pursuit of Cadbury Plc by raising the cash component of its 10.6 billion-pound (\$17 billion) offer as potential rival Nestle SA ruled itself out of bidding for the U.K. candy maker.

Kraft today said it would sell a pizza business to Nestle and use all the net proceeds from the \$3.7 billion sale to raise the cash part of its bid for Cadbury, the maker of Dairy Milk chocolate, after requests from some shareholders.

"Nestle held the key to a competitive auction for Cadbury which would've driven the price up," said Martin Deboo, an analyst at Investec in London. "Kraft have purchased their silence and made their own offer marginally more attractive in the process."

The sale may hinder the chances of a successful bid by Ferrero SpA and Hershey Co., which analysts had been speculating might team up with Nestle or others to make an offer. Cadbury fell as much as 2.4 percent in London trading as the chances of a bidding contest receded and the overall value of Kraft's current bid remains the same.

*"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."*

Hershey spokesman Kirk Saville did not immediately return a phone message left outside of office hours.

### 'Derisory'

Cadbury shares were down 14.5 pence, or 1.8 percent, to 790.5 pence at 11 a.m. U.K. time. That's still about 6.3 percent more than the 744 pence value of Kraft's offer because some analysts expect the bid to be raised to placate shareholders. The new cash component amounts to about 60 pence per Cadbury share in cash, Kraft said today.

"Kraft has once again missed the point," Cadbury spokesman Trevor Datson said by telephone. "Despite this tinkering, the Kraft offer remains unchanged and derisory with less than half the consideration in cash."

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. The company will release details of its final bid on Jan. 19.

Selling the pizza unit, which was more profitable than the company as a whole, will be "dilutive" to Kraft's earnings and increases the chances that the company will come back with a higher offer on Jan. 19 to secure Cadbury, according to Investec's Deboo.

"It looks like there's money they've kept off the table for now," though Kraft will "struggle" to bid above 820 pence, Deboo added.

## **'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. Kraft will "struggle" to table a bid above 820 pence, he added.

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, the maker of Nutella spreads, he said. A Ferrero spokesman declined to comment today.

"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 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 25 centimes, or 0.5 percent, to 50.70 Swiss francs at 12:03 p.m. in Zurich trading.

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