



Kraft sweetens Cadbury offer, Nestle says no bid

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By Michele Gershberg and David Jones

NEW YORK/LONDON, Jan 5 (Reuters) - Nestle ruled itself out of a bid war over Cadbury and Kraft sweetened its \$16.4 billion offer with a bigger cash portion, raising expectations the U.S. food group will win its prize. Kraft's revised 10.2 billion pound (\$16.4 billion) proposal adds 60 pence of cash per share to tempt shareholders in the British maker of Dairy Milk chocolate and Trident gum, but reduces the share portion of the hostile offer accordingly.

Cadbury renewed its rejection of the offer, once again calling it "derisory". Shares in Cadbury fell as much as 2.4 percent after Switzerland's Nestle, the world's biggest food group, said it did "not intend to make, or participate in, a formal offer".

Cadbury shares fell as low of 786 pence before trading off 2.1 percent at 788p by 1030 GMT compared to Kraft's cash and share bid which valued Cadbury shares at 743p on Tuesday.

"This doesn't really change anything. It was never really the form of the deal that was the problem, it was always the price," said one top 20 Cadbury investor.

Many analysts and investors expect Kraft will need to pay 800p or above to win over Cadbury, but said Nestle's move to rule itself out does cut the chance of a takeover battle.

"Nestle's decision effectively leaves Kraft as the overwhelming front-runner....Nestle's decision effectively removes Ferrero and Hershey from the field as competitive forces," said analyst Jeremy Batstone-Carr at Charles Stanley.

U.S.-based Hershey and Italy's Ferrero did express interest in bidding for Cadbury back in November 2009 but they need to come up with fully financed bids by a deadline of Jan. 23 to succeed under UK takeover rules. Analysts had expected Nestle might team up with Hershey and Ferrero was seen as needing financial help.

"ONE-HORSE RACE"

"The decision not to pursue Cadbury was always clear despite market speculation to the contrary. Now it's in the open," said independent analyst James Amoroso. "As I have repeatedly maintained, the Cadbury race is a one-horse race. Now Kraft has some more cash to put behind the bid."

Kraft sought to win over Cadbury shareholders by offering to use the full net proceeds from a \$3.7 billion sale of its North American frozen pizza unit to Nestle to raise the cash portion of its offer by 60p a share to 360p with the rest made up of a reduced number of new Kraft shares.

"Kraft Foods is doing this because of the desire expressed by some Cadbury security holders to have a greater proportion of the offer in cash," Kraft said in a statement. The U.S. company added that some of its own shareholders had asked it be "more sparing" in its use of Kraft shares in its bid.

Cadbury was defiant. "Kraft has once again missed the point. Despite this tinkering, the value of the Kraft offer remains unchanged and derisory with less than half the consideration in cash," a spokesman told Reuters.

Kraft said it will give detailed terms of the alternative by Jan. 19, the last day Kraft is allowed to amend its offer under British takeover rules. The U.S. food maker also extended its deadline for shareholders to accept its offer to Feb. 2.

Nestle's sale of a majority stake in eye care group Alcon to Novartis this week has left it with plenty of cash for acquisitions, even after launching a new 10 billion Swiss franc share buyback, which had fuelled speculation it could enter the fray for Cadbury.

PRICEY PIZZAS

Nestle said the frozen pizza business it is buying from Kraft, which had 2009 sales of \$2.1 billion, would boost its earnings per share in the first full year of ownership and that synergies, at an estimated 7 percent of sales, would be fully realised within five years.

"Nestle's acquisition of the Kraft pizza business is certainly not a cheap one," said Richard Withagen, analyst at SNS Securities who has a "reduce" rating on Nestle shares and a price target of 44 Swiss francs. "While the company has a strong track record in realizing synergies, it needs them to make this deal value accretive."

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