

## International Danone: Not For Sale

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NEW YORK - **Groupe Danone** investors woke up this morning wondering what was in the yogurt.

Shares of the French yogurt maker dropped 9% after **PepsiCo** (nyse: [PEP](#) - [news](#) - [people](#)) of the U.S. told French regulators that it is not preparing a bid for Danone (nyse: [DA](#) - [news](#) - [people](#)). At their peak last week, Danone shares had climbed 32% — to 96.25 euros on July 20 from 72.7 euros on June 30 — amid three weeks of persistent rumors that the company was about to be acquired by PepsiCo. Even after Monday's drop, they are still up 9% since the beginning of the month. Not a bad month's work for the rumor mill.

It's easy to see why investors were intrigued by the idea of Danone as a takeover target. If the maker of Stonyfield Farm yogurt and Evian water was really for sale, it could fetch a price as high as 110 euros to 118 euros a share, says Credit Suisse First Boston in a research report entitled "Aux armes citoyens?" — that's almost 39% above Monday's midday price of 81.75 euros.

We may never know if Pepsi was indeed interested in buying Danone, though it would have been a good fit. Danone's products are far healthier than the fizzy drinks and salty snacks in Pepsi's portfolio. And Danone is one of the biggest purveyors of bottled water in Europe and Asia, while Pepsi is the largest in the U.S.

But the mere suggestion that a big American conglomerate could be interested in taking over a French "jewel" had politicians up in arms in Paris.

Legislators called the idea "scandalous" and politicians asked the Prime Minister to keep Danone in French hands. On the subject of a hostile bid for Danone, Finance Minister **Thierry Breton** told RTL Radio on July 21: "France is not the wild west. We have a strict framework of laws, and we will ensure that the law is applied so that the interest of employees will be protected."

Danone's chairman, [Franck Riboud](#), who took over management of the company from his father, has also expressed his desire to keep Danone independent. There is a good chance that key personnel would walk away from the company if a hostile bid were to succeed, says **James Amoroso**, an analyst of Helvea Securities, which is based in Zurich and is part of **Pictet**, a Swiss bank.

So there is little chance that any hostile takeover could succeed. Danone has a free float of 85%, but it also has a poison pill in its corporate bylaws that would make any hostile bidder "either crazy, stupid or very long-sighted," says **Amoroso**. First, it would be difficult to "sneak up" on Danone, he explains. Any purchaser must alert the company whenever 0.5% of the shares are purchased. Failure to do so means a loss of voting rights for two years. Second, no single shareholder can control more than 6% of the votes, unless the voting laws are changed, and that requires control of two-thirds of the company. That means, in theory, an acquirer could build up a 66% stake in Danone but still have only 6% of the vote.

**Amoroso** has just completed an analysis of the company's shareholders and believes that management could convince at least 34% of them not to side with a potential acquirer. And if that were not enough to deter a potential bidder, there are French unions and French consumers to consider. When Danone tried to shut down a plant in France a few years ago, local consumers boycotted the company's products.

Investors should not underestimate the depth of nationalism when it comes to corporate France. Pepsi rival **Coca-Cola** (nyse: [KO](#) - [news](#) - [people](#)) attempted a friendly takeover of **Orangina** that lasted three years and ended in 2001, only to be thwarted by the French government's objections. Orangina was sold instead to **Cadbury-Schweppes** (nyse: [CSG](#) - [news](#) - [people](#)) of the U.K., which had the advantage, in the eyes of Paris, of being European.

That precedent has some investors speculating that a European white knight may be sought, perhaps in the form of **Nestlé** (other-otc: [NSRGE](#) - [news](#) - [people](#)) to fend off any outside interest. But a Nestlé-Danone combination would make little sense. The combined market share of each company would dominate too many water and dairy markets, particularly in France.

"Nestlé would have to sell as much as it would gain," to get a deal past antitrust authorities, **Amoroso** says, asking, "Would Nestlé go in and carve up Danone?" That thought would no doubt horrify Paris, and "Nestlé has never done a deal like that before," he says.

Even if Pepsi and Nestlé won't be bidding on Danone this week, the idea that Danone would make a tasty acquisition is still out there. That is one reason the shares are still trading at a premium.

But a transaction that would make more sense — and likely be more palatable to the French consumers, unions and government — would be a merger of Danone and **Numico**, the Dutch maker of baby food and nutrition supplements for the very young, the very old and people suffering from diseases such as diabetes. This would take Danone into pharmaceutical nutrition — a good fit with the company's emphasis on healthy products.

A Numico merger would make Danone a mightier champion in the eyes of nationalists and make it harder for an acquirer to swallow. But any hint that Danone might go shopping for a competitor or two would knock the wind out of its share price. Why stick around to find out?

At these levels, even analysts who like the company recommend selling. "This is the most successful set of nonsense rumors I've ever seen," says **Amoroso**. "It's a wonderful opportunity for more rational minds to make some money." He recommends buying Nestlé, which has fallen on the speculation that it would come to Danone's rescue. **Amoroso** has a price target of 380 Swiss francs for the Swiss foodmaker, 12% above where its shares traded at midday Monday.