



Buffett warns Kraft on Cadbury bid

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By Michele Gershberg and David Jones



NEW YORK/LONDON (Reuters) - Nestle <NESN.VX> ruled itself out of a bid war over Cadbury <CBRY.L> and Kraft <KFT.N> sweetened its \$16.4 billion offer, but the U.S. food firm's biggest shareholder Warren Buffett warned it not to overpay.

Buffett raised doubts about the success of Kraft's hostile bid and sent Cadbury shares lower and Kraft stock higher.

His Berkshire Hathaway Inc <BRKa.N>, which owns 9.4 percent of Kraft, said it had voted "no" to Kraft's proposal to issue up to 370 million new Kraft shares to help fund a Cadbury takeover but may change its vote if it concludes that the offer does not destroy value for Kraft shareholders.

The highly influential Buffett - known as the Sage of Omaha for his investment expertise - said Kraft's share issuance proposal gives it a blank check allowing the group to change its offer for Cadbury.

Earlier, Kraft revised its 10.2 billion pound (\$16.4 billion) proposal adding 60 pence cash per share to the offer to tempt shareholders in the British maker of Dairy Milk chocolate and Trident gum, but reducing the stock portion of the hostile offer accordingly.

The extra cash brings the cash portion to 360 pence and is funded from a deal whereby Switzerland's Nestle will buy Kraft's North American frozen pizza business for \$3.7 billion.

Cadbury renewed its rejection of the Kraft takeover bid, once again calling it "derisory."

Cadbury shares fell after Nestle, the world's biggest food group, said it did "not intend to make, or participate in, a formal offer" for the British confectioner, and fell further after the Buffett's warning.

They fell as low of 760 pence before trading off 3.3 percent at 779 pence by 1435 GMT (9:35 a.m. EST) compared with Kraft's cash-and-share bid which valued Cadbury shares at 756 pence on Tuesday. Kraft shares rose 3.1 percent to \$28.28.

"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 <HSY.N> and Italy's Ferrero expressed interest in bidding for Cadbury in November but they need to come up with fully financed bids by January 23 to succeed under British takeover rules.

Analysts had expected Nestle might team up with Hershey, while Ferrero was seen as needing financial help.

Analyst Martin Deboo at Investec Securities said Kraft had effectively bought Nestle's silence in the bid process while the likelihood of a competitive auction for Cadbury had fallen.

"We viewed Nestle as holding the key to any competitive auction in that their participation would have liberated an otherwise financing and ambition-constrained Hershey and/or Ferrero to make a run," he said.

Many analysts and investors expect Kraft will need to pay 800 pence per share or above to win over Cadbury, and Deboo sees Kraft's ultimate valuation of Cadbury at 820 pence.

"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. "The Cadbury race is a one-horse race. Now Kraft has some more cash to put behind the bid."

Kraft said the move was made "because of the desire expressed by some Cadbury security holders to have a greater proportion of the offer in cash" and because some of its own shareholders had asked it to use fewer Kraft shares.

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 would give detailed terms of the alternative by January 19, the last day it 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 February 2.

Cadbury shareholders have said in the past that a bigger cash portion would help, but one investor was unimpressed by the new proposal 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 a top 20 Cadbury investor.

PRICEY PIZZAS

Nestle said the frozen pizza business it was buying from Kraft - which had 2009 sales of \$2.1 billion and includes the DiGiorno, Tombstone and Jack's brands - 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 realized 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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(\$1 = 0.6211 pound)