

FINANCIAL NEWS

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Kraft Foods launches Cadbury takeover bid

By Ben Perry



LONDON (AFP) - US food giant Kraft Foods (NYSE: KFT - news) launched a 10.2-billion-pound bid for rival Cadbury (Munich: A0NJP5 - news) on Monday, an offer spurned by the British group as takeover activity appeared to be returning to the market.

Cadbury said it had rejected the offer, worth the equivalent of 16.7 billion dollars or 11.7 billion euros, but Kraft said it hoped the British confectionery giant would eventually jump on board.

Cadbury's share price surged on the news and ended the day with a gain of 37.85 percent at 783 pence.

Kraft Foods, the world's second biggest snacks group after Nestle (4707.KL - news) , said it hoped the takeover would increase annual revenues to 50 billion dollars a year.

"At the moment traders seem to be happy to speculate that a revised offer could well be forthcoming," said David Jones, chief market strategist at financial betting firm IG Index.

One analyst said a bidding battle may even occur, as takeover activity returns to the market following the worst economic downturn in decades.



Evolution Securities analyst Warren Ackerman, cited by Dow Jones Newswires, said "there is a reasonable chance" that Nestle could take Cadbury's chewing gum business and US group Hershey (NYSE: HSY - news) the chocolate operations.

A tie-up between Kraft and Cadbury would merge leading Kraft brands Oreo biscuits and Maxwell House coffee with Cadbury's Dairy Milk chocolate and Trident chewing gum.

"Kraft Foods Inc. today announces that it has made a proposal to the board of Cadbury plc to combine the two companies," said a statement issued by Kraft to the London Stock Exchange (LSE: LSE.L - news) .

The offer "values the entire issued share capital of Cadbury at 10.2 billion pounds," it added.

"This proposed combination is about growth," Kraft Foods chairman and chief executive Irene B. Rosenfeld said in her company's statement.

"We are eager to build upon Cadbury's iconic brands and strong British heritage through increased investment and innovation."

She added: "We hope to engage with the Board of Cadbury on a constructive basis with the goal of consummating a recommended transaction."

But Cadbury, led by American chief executive Todd Stitzer, rejected the proposal, saying it "fundamentally undervalues" the company and its prospects. Cadbury also voiced confidence in its "standalone strategy and growth prospects."

Shares in Cadbury, the world's second biggest confectionery company behind Mars, shot up 40.76 percent to 799.5 pence in afternoon London trade. Nestle rose 1.15 percent to 43.82 Swiss francs in Zurich.

"I do not think that Nestle will counterbid," said independent analyst James Amoroso.

"Nestle has much to gain from the disruption that a Kraft takeover would create. Cadbury and Kraft culture is very different and possibly incompatible. The overlaps between Cadbury and Nestle are considerable so that anti-trust issues would be inevitable. Thus, Nestle would not want to pay the premium."

Kraft Foods said it had proposed 300 pence in cash and 0.2589 new Kraft Foods shares per Cadbury share.

This valued each Cadbury share at 745 pence, 31 percent higher than Cadbury's closing share price last Friday, but below its trading level on Monday.

"We believe that Kraft will need to up its offer to have any serious chance of success, perhaps to 800 pence in cash or higher and may need assistance given that it already has around 15 billion dollars debt," said Jeremy Batstone-Carr, an analyst at the Charles Stanley brokerage.

Kraft Foods said a tie-up would lift its revenues to about 50 billion dollars a year from 42 billion dollars presently.

It added that by combining the groups, plans for about 500 job cuts at Cadbury in Britain would be scrapped.

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