

Nestle Passes on Mega Deals With Do-It-Yourself Nutrition Unit

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Luis Cantarell, head of the business, said he'll spend five years developing a product range and pipeline to prevent or treat Alzheimer's, obesity, diabetes and high blood pressure. Photographer: Craig Ruttle/Bloomberg

Nestle SA sat on \$28.3 billion in cash this year while competitors shelled out billions for acquisitions, investing instead on building a personalized nutrition business and making smaller purchases.

Nestle aims to become the leader in health science nutrition in 10 years, extending its dominance beyond coffee, powdered milk and baby food. The Swiss maker of KitKat chocolate bars says Nestle Health Science's products will help treat or prevent conditions such as high blood pressure and obesity.

The world's largest food company, Nestle shunned the three biggest food deals of the year, even after amassing a cash pile from the sale of its stake in Alcon Inc. Kraft Foods Inc. became the No. 1 confectioner with its \$21 billion purchase of Cadbury Plc; PepsiCo Inc. agreed to pay more than \$3.8 billion for Wimm-Bill-Dann Dairy & Juice Co. in Russia; and KKR & Co. led a \$4 billion buyout of Del Monte Foods Co.

"They choose not to play," said Thomas Russo, who manages \$3.5 billion at Gardner Russo & Gardner in Lancaster, Pennsylvania. "We have long been rewarded by Nestle's willingness to step away from the moves made popular by the crowd." Russo has 11 percent of the assets he oversees in Nestle, a stock he has owned for more than two decades.

Vevey, Switzerland-based Nestle won't say how much it's investing in the health unit, which opens on Jan. 1 to develop gels, shakes and soluble powders. Luis Cantarell, head of the business, said he'll spend five years developing a product range and pipeline to prevent or treat Alzheimer's, obesity, diabetes and high blood pressure.

Race With Drugmakers

"There is a race to the middle between pharma and food," Cantarell said in an interview on Oct. 22. "The opportunity is big. The risk is big. The reward is big."

Nestle's market capitalization has swelled by more than 70 billion francs (\$73 billion) since 2004, making it Europe's second-most valuable company. It has returned 60 billion francs of cash to shareholders. The total return on Nestle shares since the end of 2004 is 120 percent, compared to 9.4 percent for Kraft and 46 percent for PepsiCo.

In the past year, Nestle shares have risen 11 percent, about the same as PepsiCo, while Kraft gained 18 percent.

"We would like to see Nestle staying away from a large acquisition and rather focusing on health and nutritional categories," said James Moffett, who oversees about \$7 billion at Scout Investment Advisors in Kansas City, Missouri.

Kraft Pizza

The Swiss company hasn't shunned all acquisitions, buying Kraft's North American pizza business for \$3.7 billion. The purchase was smaller than some analysts expected, as David Hayes of Nomura said Nestle might bid for General Mills Inc., which has a market value of about \$23 billion.

Nestle has made about 10 "bolt-on" acquisitions this year, disclosing the price only on the Kraft unit and a 9.6 million-euro bottled water acquisition. Nestle got a discount on the pizza business because Kraft needed to raise money for Cadbury, Russo said.

"Nestle could obviously afford any of the companies that have come up," said Jon Cox, an analyst at Kepler Capital Markets, adding that strategic and financial considerations may have kept it away from Cadbury and Wimm-Bill-Dann.

PepsiCo is paying about 19 times earnings before interest, taxes, depreciation and amortization for the Russian company, according to Bloomberg data, while Nestle got the Kraft unit for 12.5 times earnings.

"Nestle is clearly going to focus on smaller bolt-ons in nutrition as well as in emerging markets -- but it will act opportunistically to fill in key categories in the developed world," he said.

Sad Bankers

Investment bankers "are probably very sad, but the institutional investors who are just buying and holding the shares should be very happy because that money will find its way back to shareholders through buybacks or dividends as there is nothing else big to buy," said James Amoroso, a food industry consultant based in Walchwil, Switzerland.

Nestle has bought back more than 25 billion francs worth of stock since 2007 as it progressively reduced its stake in Alcon. The food company multiplied its original eyecare investment by more than 140 times.

The scope for acquisitions has decreased since Nestle spent more than \$30 billion on deals in the past decade, including some of the industry's largest takeovers such as the Purina pet care and Gerber baby foods brands.

Too Big to Buy?

Nestle can't buy large competitors because it's already a leader in many categories, said Pierre Tegner, an analyst at Oddo & Cie. It sold more than a fifth of the world's coffee, almost a quarter of the baby food and a third of the world's powdered milk in 2009, according to Euromonitor. It also sold more than 10 percent of carbonated and still bottled water globally, according to the market researcher.

"Will Nestle find something tomorrow or in 10 years? We don't know," said Jean-Marie L'Home, an analyst at Aurel in Paris who has covered the industry since 1987. "It's not only an issue of money or skill, it's also a question if you're lucky or not."

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