

Could PepsiCo Digest Danone?

The U.S. outfit's rumored bid for the French dairy giant is riling Gallic leaders. That opposition may not be the biggest obstacle, however

by Carol Matlack

Could Groupe Danone, the outfit behind Dannon yogurt and Evian water, make a tasty meal for PepsiCo? Shares in the French food company have soared nearly 20% in the past few days, on rumors that Purchase (N.Y.)-based Pepsi is preparing a takeover bid.

Certainly, Danone looks tempting. It has a fast-growing bottled-water business in the U.S. and in Asia, where Pepsi ([PEP](#)) is eager to gain a foothold. And it's the No. 1 global producer of fresh dairy products, which could strengthen Pepsi's recent attempts to add a more healthful glow to its traditional product lineup of soft drinks and snack foods. Previous moves in this direction include the purchase of the Tropicana line of juices and Quaker Oats, which brought both cereals and Gatorade sports drinks into the lineup.

"This is a combination that makes abundant sense. It's very much in Pepsi's interest," says Tom Pirko, president of Santa Barbara (Calif.)-based consultancy BevMark, who has advised Pepsi and worked on its 1998 Tropicana acquisition.

Neither Pepsi nor Danone is commenting on the takeover rumors. (On July 6, Pepsi denied a report in the French media that the company had built a 3% stake in the company, but declined to comment on deal rumors beyond that.) But analysts reckon Danone, with \$16.5 billion in annual sales, would command a purchase price of about \$36 billion -- pricey, but still within reach for \$29.2 billion-a-year Pepsi.

DIFFICULT INTEGRATION. But Danone may prove more than Pepsi wants to swallow. For one thing, the French consider the family-managed company a national treasure, and political leaders are already mobilizing to protect it. Prime Minister Dominique de Villepin said on July 20 that he has assured Danone Chief Executive Franck Riboud that the government would support "the defense of Danone's interests and the French future of Danone." Riboud, the son of the company's founder, has said he wants Danone to remain independent.

Government-controlled bank Caisse des Dépôts et Consignations holds a 3% stake in Danone, which isn't enough to block Pepsi outright. But France has thwarted other proposed corporate takeovers by exerting pressure on French institutional investors, which own 29% of Danone. Another 14% of shares are held by Danone managers and the company's treasury and pension funds.

Under company bylaws, a two-thirds majority of shareholders would be required to approve a takeover. Even if Pepsi surmounted that hurdle, having Danone fall into foreign hands could trigger a backlash among French consumers, who account for about one-fourth of Danone's global sales.

"Not only would they have to overcome political opposition, but there would be a very difficult cultural integration," says analyst Robert van Brugge of Sanford Bernstein & Co. in New York, who thinks a deal is unlikely to happen.

BRAIN DRAIN. Integrating Danone could give Pepsi a bad case of indigestion, too. Danone managers would probably quit in droves if there were a hostile takeover, says **James Amoroso**, an analyst at Helvea brokerage, a subsidiary of Swiss bank Pictet & Cie. "Danone has the culture of a small company -- the employees feel it's their company," **Amoroso** says.

Mass departures would rob Danone of a seasoned management corps that's widely admired in the industry for developing innovative products such as Actimel drinkable yogurt. Pepsi, by contrast, has no experience in the dairy business.

If Pepsi takes a pass, could another big food or beverage company grab Danone? A U.S. company, such as Coca-Cola ([KO](#)) or Kraft ([KFT](#)), also would face political and cultural problems in absorbing the French company. Switzerland's Nestlé is another possibility, but it would have big antitrust problems, since it's neck-and-neck with Danone for the No. 1 spot in the global bottled-water business.

With so many obstacles, it looks as if Danone's admirers may have to quench their acquisition thirst elsewhere.

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