

Nestlé and Dreyer's merge ice cream arms

By William Hall in Zurich, FT.com site
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Nestlé, the world's largest consumer food company, has taken another big step towards realising its dream of becoming the world's number one ice cream company by merging its US ice cream operations with Dreyer's, the largest US ice cream manufacturer.

Nestlé, ranked second in the world ice cream industry after Unilever, has signed a definitive agreement to combine its US ice cream operations with Dreyer's, in return for 55m new Dreyer's shares. It will create a group with a stock market value of over \$4bn.

Nestlé says that the deal will allow it to "significantly grow" its sales and performance in the world's biggest ice cream market, ranked both by size and per capita consumption, with no immediate cash outlay.

Nestlé, which already owns 23 per cent of Dreyer's, will control 67 per cent of the enlarged company and has the right to buy out the minority shareholders in five years time at \$88 a share, which is just over twice last Friday's closing price of \$42.79.

The deal, which is subject to Dreyer's shareholder approval, should be completed within 12 months. The move comes hard on the heels of Nestlé's acquisition of Germany's Schoeller, a move which boosted its European ice cream market share to 15 per cent, and its purchase of the exclusive rights to the Häagen-Dazs premium ice cream brand in North America.

The latest deal also underscores the determination of Peter Brabeck, Nestlé's chief executive, to boost his group's growth rate by diversifying into faster growing markets such as pet food, bottled water, and ice cream, which was highlighted by the recent \$10.3bn acquisition of Ralston Purina, the US pet food giant.

However, Nestlé faces a stiff challenge in dislodging Unilever from the number one slot in ice cream. Last year Nestlé's ice cream sales remained unchanged at SFr3.8bn (\$3.8bn) and are only marginally profitable. Meanwhile, Dreyer's own profitability has been hit by sharply higher cream costs. Its net income fell 65 per cent, to \$8.8m in 2001.

By merging its US operation with Dreyer's, which increased its 2001 sales 17 per cent to \$1.4bn, Nestlé expects to achieve \$170m in cost savings by 2005, and also gain access to a nationwide distribution system.

Bill Dreyer founded Dreyer's in 1929 with the creation of the Rocky Road ice cream, and it has grown into the market leader in US grocery outlets. Just under two thirds of sales come from its own brands, primarily Dreyer's and Edy's, and the remainder comes from distributing rival products manufactured by Unilever, Mars and Ben & Jerry's.

T. Gary Rogers, Dreyer's chairman, and William Cronk, president, bought Dreyer's in 1977 and took it public in 1981. Rogers will head the enlarged group and Cronk will retire.

The US accounts for nearly half of the world's ice cream consumption and has long been a battle ground between Unilever, the market leader, and Nestlé, its arch rival. Unilever remains market leader

in the 'impulse' buying sector of the US ice cream market, but Nestlé will now dominate the US grocery trade for ice cream.

James Amoroso of Zurich's Bank Vontobel estimates that the acquisition will increase Nestlé share of the global ice cream market by two percentage points, to 13 per cent, which still leaves it trailing behind Unilever with 17 per cent.

Cedric Boehm, of Geneva private bank Pictet, says that Dreyer's huge distribution network will be a very important asset for Nestlé. "Strategically the deal makes a lot of sense", said Mr Boehm, author of a 36-page report on the battle for leadership in the world ice cream industry.

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