

Nestlé may be close to agreement on Dreyer's

By William Hall in Zurich, FT.com site
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Confidence is growing that Nestlé, the world's biggest food company, is close to agreeing fresh concessions with the US Federal Trade Commission clearing the way for the completion of its long-delayed \$2.8bn acquisition of Dreyer's, the largest US ice cream manufacturer.

Dreyer's share price has been rising sharply over the past few days amid speculation that the FTC could give the go-ahead at its next board meeting on Friday. Dreyer's shares rose 5 per cent, to \$73.3 on Tuesday, which is close to the level they were trading at before the FTC threatened to block the deal last March.

Nestlé said on Wednesday morning that it remained confident that it would be able to finalise the Dreyer's deal by mid-June despite earlier FTC concerns that it would raise prices and eliminate competition in the market for "super-premium" ice cream - the most profitable and fastest growing segment of the world's biggest ice cream market.

Nestlé refused to comment on a Wall Street Journal report that it planned to sell several of its super-premium brands to address the concerns of the FTC, which last March signalled that it planned to seek a court injunction to block a deal first announced in June 2002.

Nestlé, which plans to merge its ice cream operations with Dreyer's, sells the Häagen Dazs brand of super-premium ice cream whilst Dreyer's "superpremium" brands include Dreamery, Godiva and Starbucks.

The FTC alleged that the purchase of Dreyer's would give Nestlé a 60 per cent market share. It would also mean that Nestlé and Unilever, which sells Ben Jerry's ice cream, would have a 98 per cent share of the super-premium market.

The FTC's decision to block the deal came only hours after Nestlé and Dreyer's had announced plans to sell various assets, including assigning the license for Dreyer's Godiva brand, to satisfy FTC concerns.

The surprise move was a blow for Nestlé's credibility since it suggested that the Swiss food giant had significantly misjudged or mishandled the negotiations with the US regulator. Dreyer's share price fell from \$75.4 to a low of \$57.6 immediately after the FTC's announcement.

However, it also raised questions about the FTC's own credibility since any decision to block the deal has to be made by a US court and not the FTC, which has to seek court approval for its actions.

Some lawyers thought that the FTC would have difficulty defending its position, and it is noteworthy that the FTC has so far failed to seek the preliminary court injunction blocking the deal, despite the fact that it was a unanimous decision.

James Amoroso, an analyst with Geneva's Banque Pictet, said that the market had been "very uncertain" that the deal would go through. However, the overlaps of the two businesses are "limited" and the FTC's concerns surrounding the super-premium brands were "unjustified", said Mr **Amoroso**.

"The deal will go through because the overlaps are too small and if more concessions have to be made they will not be relevant to the total deal", said Mr **Amoroso**.