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Nestlé and Kraft head bidding war in Hershey sale

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A bidding war is looming for Hershey, one of America's oldest and most iconic brands, after its controlling trust said it was exploring a sale of the 108-year-old chocolate maker.

Nestlé of Switzerland and Philip Morris's Kraft Foods yesterday emerged as favourites to buy the business, which analysts valued at up to \$12bn (€12bn).

Other potential bidders were seen as Cadbury Schweppes of the UK; PepsiCo; Wrigley, the family-controlled US chewing gum business; and possibly Mars, though the private confectionery group could be ruled out by antitrust problems.

A sale would be the 12th big deal in a two-year consolidation wave that has reshaped the food industry. The prize is the biggest US chocolate maker, with 31 per cent of the confectionery market, and brands including Hershey's Kisses, Twizzlers licorice and Reese's peanut butter cups.

Hershey is on the block at the same time as Pfizer is selling Adams, its confectionery and gum company. This raises the prospect that a single bidder could buy both, though the cost and regulatory hurdles might be too high.

The Hershey business is an obvious target for Nestlé, world leader in chocolate confectionery but a weak number three in the US.

Hershey has the US licence for Nestlé's Kit Kat brand, which

would revert to Nestlé with any change of control – giving the Swiss group an advantage.

"Hershey can only be of real fundamental interest to a company for which chocolate confectionery is of strategic importance.

This alone makes Nestlé the favourite," said James Amoroso of Zurich's Bank Vontobel.

But any Nestlé-Hershey tie-up might have to divest brands to satisfy regulators.

Nestlé and Kraft both declined to comment.

Hershey could interest Kraft for similar reasons to Nestlé, giving it a US confectionery arm alongside its Milka, Suchard and Toblerone brands in Europe. John McMillin, analyst at Prudential Securities, suggested Kraft would fight for Hershey as it had the "biggest hole to fill".

Rick Lenny, Hershey's chief executive, formerly headed the biscuits arm of Nabisco, now owned by Kraft. He yesterday signalled unhappiness at the sale, saying Hershey's board had wanted to keep the company independent. It had proposed a "specific alternative" to the Milton Hershey School Trust, which controls 77 per cent of voting rights of Hershey stock.

Hershey said the trust rejected the board's proposal and concluded that exploring a sale was the most prudent option after it decided to diversify its holdings. The trust runs the Milton Hershey School, a boarding school for disadvantaged children.