

UPDATE: UK/US: Analysts split on Kraft's Cadbury bid

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Kraft Foods' takeover bid for Cadbury has attracted a mixed response from industry watchers with some urging the companies to come together and others questioning the US food giant's M&A record.

Cadbury, the maker of Dairy Milk and Trident gum, has rejected the cash-and-share approach from Kraft, which has valued the UK confectioner at GBP10.2bn (US\$16.73bn).

Kraft chairman and CEO Irene Rosenfeld insisted her company would be able to build on Cadbury's recent work in boosting margins and improving efficiency. She also claimed Kraft would be able to allow Cadbury's Somerdale production facility, which is set to close, to remain open.



[view image](#)

Rosenfeld asserted that Kraft's "global scope and scale" and "array" of processing and technological expertise would help build upon "Cadbury's iconic brands".

However, not all industry watchers are convinced about the merits of the proposed deal.

"Arguably, if the bid succeeds, the ensuing integration of two distinct cultures will create profound disruption and provide Nestle and others with a competitive advantage," independent analyst James Amoroso said. "In the worst case, it may cause irreparable damage to the Cadbury business and thus be the best thing that ever happened to the competition. This bid has industrial and strategic logic going for it but it demonstrates extreme cultural insensitivity."

However, Andrew Wood, analyst at Sanford Bernstein, urged the companies to join forces and said the investment bank had flagged a potential coming together of Cadbury and Kraft as early as 2007, after the merger of Mars and gum maker Wrigley.

"We think it makes perfect sense for Kraft to acquire Cadbury and they should do it - subject to the right price for both parties," Wood said.

He added that, based on Kraft's initial offer, Cadbury is valued at 12x 2009 consensus EBITDA. Wood said that Mars paid 19.5x EBITDA for Wrigley and claimed Cadbury deserved a higher premium.

"The 31% premium to Friday's close might seem attractive, but we think Cadbury can get much more. Arguably Cadbury has much more profit growth potential than Wrigley had at that time."

Shares in Cadbury soared this morning (7 September), leaping almost 38% to 783p.