



Hershey Trust on the horns of a dilemma

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Recent remarks from the [Hershey](#) Trust have again raised the question of whether its resistance to yielding control of the US confectionery company is ultimately damaging its prospects. As [Cadbury Schweppes](#) waits to see if the trust will change its view towards a merger, Ben Cooper suggests the companies represent a perfect fit from more than just a commercial standpoint.



[view image](#)

The rather more positive noises coming from the Hershey Trust this week on the possible future direction of the US confectionery concern attracted attention from the investment community, which is keen to see Hershey make the transformational deal most seem to think it needs.

The fact that trust chairman Leroy Zimmerman's remarks appeared on the very day that Cadbury Schweppes - viewed by many as Hershey's 'soul-mate in waiting' - announced it was finally to spin off its US drinks arm only added to the chatter.

But closer examination of Zimmerman's remarks may leave many shrugging and asking whether anything has really changed.

Zimmerman said the trust held a "fundamental belief that the long-term prosperity of the company requires the company board and its management to build on its strong US position by aggressively pursuing strategies for domestic and international growth". This has been interpreted as suggesting a more tolerant view towards acquisition or merger. And, if any such deal were to be done right now, Cadbury would be the glaringly obvious choice, given the almost perfect fit between the two companies, and the fact that Cadbury is itself looking for such a deal.

However, that remark was prefaced by Zimmerman reiterating the trust's resolve to retain its controlling interest in Hershey. The trust owns a 30% equity stake in the company but 80% of the voting rights. Zimmerman said the trust, set up by the company's founder to look after the interests of the Milton Hershey School, is obliged under Pennsylvania law to maintain its voting control.

He added that there was "no inherent conflict" between these two ideas, and that "there are many paths to accelerating growth that do not involve the trust giving up voting control of the company". But others have begged to differ.

"They have to be prepared to give up control and by not doing it they are restraining company growth," **James Amoroso**, analyst at Swiss broker Helvea, told just-food. "It cuts off all sorts of strategic options." **Amoroso** was dismissive of any form of loose strategic alliance, saying that it would not deliver the growth that Hershey needs.

Zimmerman's remarks were also notable for their very public criticism of Hershey's recent performance. Hershey has lost market share in the US, where it does around 90% of its business, while second-quarter sales were flat at US\$1.1bn with profit falling to \$3.6m, from \$97.9m in the same period last year. As Zimmerman pointed out, the trust has seen some \$1bn wiped off the value of its equity stake over an unspecified period of poor performance.

Some may feel Zimmerman has something of a nerve criticising Hershey for its mediocre results when the trust's prohibitive stance is responsible for the company adopting a lower-risk and lower-

return strategy. Others, however, feel it could be indicative of a more open-minded view on control, if only to gain a better return from its shareholding.

All this needs to be viewed in the context of discussions that took place between the trust and Cadbury Schweppes last month.

Neither company has commented publicly on what was discussed but it would be extremely surprising if early on in the discussions Cadbury CEO Todd Stitzer had not raised the issue of control. And if Zimmerman gave the standard response, one is left wondering exactly what there would have been left to talk about.

The fact that these discussions were carried out without the knowledge of Rick Lenny, who announced last week that he is to quit as Hershey CEO at the end of the year, may even have been the final straw leading to his departure. In any event, they appear not to have led to any further talks or announcements by either party.

So investors are left wondering, and awaiting the next revelation. Whether that will be news of a real change of position by the trust, or Hershey ruling out an acquisition or merger because of the trust's commitment to ownership but announcing other plans for international expansion, remains to be seen.

However, one suspects many Hershey shareholders will feel that, if the next step is not some form of merger between Hershey and Cadbury, it will be a crying shame for both companies, as, in ***Amoroso***'s words, such a merger would be a "marriage made in heaven".

And maybe it's in that direction that Zimmerman might look for guidance, for there is a huge irony that the resistance of the trust, which embodies the philanthropic spirit of Hershey's founder, is preventing the group from aligning itself with a company with such a similar heritage.

Cadbury was founded by a nineteenth century Quaker philanthropist with enlightened views about social welfare, and in particular the welfare of his workers. Like Milton Hershey, John Cadbury wanted his business to embody that spirit.

To what degree the spirit of long-dead founders remains alive in modern companies is a moot point. But it might not be so fanciful to imagine that some of their ideals are retained in corporate memories over the years, and illustrious forebears represent more than just thumbnails on their websites. Certainly, Hershey can hardly forget its founder given that his trust still controls the company.

Putting all talk of equity stakes and voting shares to one side, the trust is charged with safeguarding the ethos of the founder. This it does by retaining control of Hershey but also by helping the business to thrive, which in turn provides a more secure future for the trust's beneficiaries. So if these two objectives have become mutually exclusive, and it has to cede control, better perhaps to seek out a partner with a similar heritage.

Zimmerman may be worried about Milton Hershey turning in his grave and maybe Hershey merging with another company will have him revolving a little. But Hershey was a businessman and the idea of the company letting an extremely good commercial opportunity pass by - and doing it somehow in his memory - might really set the Pennsylvania seismographs twitching.

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Seneca House, Buntsford Park Road, Bromsgrove, Worcs, B60 3DX, UK.

Tel: Intl +44 (0)1527 573 600. Toll Free from US: 1-866-545-5878. Fax: +44 (0)1527 577 423.

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