

3% DJ STOXX 50 2408.58 ▲1.0% 10-YR TREAS Closed (yield 3.444%) OIL Closed (\$68.02) GOLD Closed (\$994.90) EURO \$1.4342 YEN 92.97

Cadbury Sour on Kraft Bid

British Firm Rebuffs \$16.73 Billion Offer; Sweetened Proposal, Rival Hershey Loom

Cadbury PLC's quick rejection of Kraft Foods Inc.'s surprise £10.2 billion (\$16.73 billion) takeover offer sets the stage for a drawn-out battle that could dramatically reorder the global candy market.

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On Monday afternoon, it appeared that Kraft might face competition for the U.K. company. Hershey Co., the famed Pennsylvania chocolatier, "is likely to make some response," said one person familiar with the

matter.

Kraft went public Monday with a cash-and-stock bid for Cadbury, which had already rebuffed the advance in private. In publicly rejecting it, Cadbury said the offer, a 31% premium to its closing share price on Friday, "fundamentally undervalues" the company.

For Kraft and its chairman and chief executive, Irene Rosenfeld, the deal would expand the company's reach globally and put some of the world's best-known brands—from Kraft's Oreo cookies and Velveeta cheese to Cadbury's chocolate bars and Trident gum—under

the same roof. It would potentially create a worthy rival for Mars Inc., which last year created a behemoth by acquiring Wm. Wrigley Jr. Co.

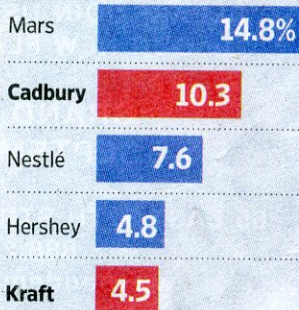
The rejection immediately puts pressure on Kraft to increase its bid. People close to Cadbury—whose chief executive, Todd Stitzer, is in the midst of a four-year growth plan—say the company views the bid as an opportunistic effort to take advantage of its depressed valuation.

Please turn to page A17

- A clash of two CEOsA17
- Sticky challenge for KraftC10

Sweet Tooth

Companies' shares of the global confectionery market



Source: Euromonitor

Cadbury Sour on Kraft Bid; Sweetened Proposal, Hershey Loom

Continued from Page One

The approach left Cadbury to decide whether to dig in and protect its independence, seek a higher offer from Kraft, or find a friendly bidder.

Hershey's possible response to Kraft's bid stems from its recognition "that Cadbury is the last major confectionery company potentially available," explained the person familiar with the matter. Hershey and Cadbury have discussed combinations before. Hershey distributes Cadbury products in the U.S. under a longtime agreement.

The Kraft offer comes as merger activity appears to be coming back to life. Recent weeks have seen Walt Disney Co. announce a \$4 billion deal for Marvel Entertainment Inc. and Baker Hughes Inc. buy oil-field-services company BJ Services Co. for \$5.5 billion.

A deal between Kraft and Cadbury would create a global food giant with \$50 billion in annual revenues, and would boost Kraft's growth prospects by giving it access to new brands, especially in the attractive chewing-gum segment. Confectionery products typically have higher profit margins than Kraft's companywide operating margin in 2008, which was about 9%.

The deal would add new distribution channels for Kraft's existing products. Cadbury's presence in foreign markets is particularly attractive. The vast majority of Cadbury's sales are outside the U.S., and more than one-third are in fast-growing emerging markets.

The bid values each Cadbury share at 745 pence—300 pence in cash, and 0.2589 new Kraft share for each Cadbury share.

In an interview, Ms. Rosenfeld said she believes Kraft made a "full and fair" proposal. Still, Kraft didn't rule out increasing its offer. Ms. Rosenfeld vowed to work toward "constructive conversation" with Cadbury, but said Kraft would remain a disciplined buyer.

"For the last three years, we've spent our time transforming Kraft, reinvigorating our business," Ms. Rosenfeld said. The proposed acquisition of Cadbury is "about growth. It's about building for the future. These are two highly complementary companies that can do great things together."

Speculation on Monday focused on whether Hershey or Nestlé SA could step in—possibly in partnership—as an alternative to Kraft.

Hershey and Cadbury had

talked about a combination for years. In January 2007, Cadbury's American-born chief executive, Mr. Stitzer, sat down with Hershey's then-CEO, Richard Lenny, and suggested they create a "global confectionery powerhouse," but the talks never went anywhere.

By the time Hershey's controlling shareholder, the Hershey Trust Co., tried to resume talks in late 2007, the climate for doing a deal had chilled. The Hershey Trust repeatedly has refused to cede control of Hershey, so it appears that the only way for it to do a deal with Cadbury would be to buy it.

Nestlé, meanwhile, has a big chocolate business in the U.K. If combined with Cadbury's, it could spark concern among competition watchdogs. Still, people close to the Swiss giant said the Kraft move would force it to at least take a look at Cadbury.

On Monday, Nestlé Chief Executive Paul Bulcke said the company is always "open to acquisition opportunities if they fit strategically," but that its appetite is limited for now.

Ms. Rosenfeld has had Cadbury in her sights for at least a year, a person familiar with her thinking said. But a bid was delayed by market and economic tur-

moil. Since March, however, global stocks have rallied sharply, with Kraft's shares up by a third.

Ms. Rosenfeld contacted Cadbury Chairman Roger Carr about 10 days ago, saying she was in the country and would like a meeting, a person familiar with the matter said. The two met at Mr. Carr's office in London on Aug. 28, where Ms. Rosenfeld quickly sprang her offer, people familiar with the matter said. Though Mr. Carr was

Speculation focused on whether Hershey or Nestlé could step in.

cool to it, Ms. Rosenfeld followed up the same day with a letter detailing the bid. Cadbury's board, after analyzing and discussing the offer, formally rejected it in a terse letter a few days later, one of the people said.

One potential problem: The offer contains a relatively high stock component of 60%, a hurdle for Cadbury's U.K. shareholders who have restrictions on the U.S. stock they can hold. The bid values Cadbury at less than 15 times its 2008 earnings before interest,

tax, depreciation and amortization, or Ebitda, compared with about 19 times prior-year earnings in Mars's recent purchase of Wrigley.

The market was betting Monday that a higher offer will be forthcoming, with Cadbury shares soaring 38% to 783 pence.

Cadbury is the world's second-largest candy and chocolate company by sales behind Mars. The 185-year old company is a brand that Britons have patronized since the Victorian age. The company's swirl logo, against a purple background, is one that British children grow up with.

For the past two years, the company has worked to improve its profitability by cutting costs, raising prices and simplifying its management structure.

In 2007, Cadbury's Mr. Stitzer, announced a four-year plan that aimed to increase profit margins by slashing about 15% of Cadbury's work force, shedding product variations and closing factories.

The company, whose brands include Cadbury, Green & Blacks and Trident, has been able to focus exclusively on its sweets business for the past year. Formerly Cadbury Schweppes, it spun off its U.S. soft-drinks division last year under pressure from share-

holder Nelson Peltz. The separation, coupled with its improving performance, has made Cadbury an attractive takeover target, analysts say.

Kraft's Ms. Rosenfeld, meanwhile, embarked on a three-year turnaround plan for the food giant when she won the top job in 2006. She sold lackluster brands, including Post cereals and Very-fine juices, in an effort to lift profit margins, and she moved to revitalize key brands. Kraft bought Groupe Danone SA's global cookies business for \$7 billion in 2007.

People close to Kraft took heart from the fact that Cadbury didn't say the two companies don't fit together strategically, and instead focused on price. In an ominous sign for the bid though, Legal & General Investment Management Ltd., Cadbury's largest institutional shareholder, said in a statement that "we...believe this approach materially undervalues Cadbury and support the management in rejecting it."

If the two sides can't ultimately agree on a price, Kraft could go fully hostile, making a formal bid directly to Cadbury shareholders.

—Cecilie Rohwedder, Anjali Cordeiro and Deborah Ball contributed to this article.