

# Hershey Challenge to Kraft Offer Looks Like a Tall Order

When it comes to M&A, Hershey has a long record of sitting it out. With Cadbury in play after Kraft Foods' bid, Hershey may at last be lured from the bench.

After last year's Mars/Wrigley merger, Hershey and London-listed Cadbury tried, but failed, to agree a deal. If Kraft now succeeds with this week's \$16.7 billion offer for Cadbury, it will leave Hershey a distant fourth place in global candy.

Not only would a Kraft purchase of Cadbury remove Hershey's best option for expanding into the faster-growing international chocolate markets, it could also ratchet up competition in Hershey's core U.S. market, with Kraft dis-

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Market capitalization, in billions



Sources: Thomson Reuters; WSJ Market Data Group

tributing more Cadbury candy.

Facing a challenge both defensively and offensively, Hershey has every reason to react. But it is hamstrung by the Hershey Trust, which refuses to give up voting con-

trol. It is tough to envisage a rekindling of Cadbury merger talks, not least because the U.K. company's shareholders will now be expecting a big premium from a straight acquisition. Cadbury shares are up 38% since the Kraft offer was announced.

That probably leaves Hershey having to finance a competing bid if it wants to get involved. But the company has \$1.7 billion in net debt and a market capitalization of \$8.9 billion—hardly enough ammunition to take over Cadbury, which is now valued at \$17.7 billion.

One possibility is for Hershey to partner with Nestlé to break up Cadbury. That would probably require the

Swiss group to take on the gum business, since its strong U.K. chocolate presence might prompt antitrust issues. But Nestlé has recently been beefing up its nutrition division with acquisitions such as baby-food maker Gerber—not a strategy that fits too well with more candy.

Hershey could also try linking up with a private-equity partner, perhaps getting it to put up cash in return for Cadbury's gum business. But a richly priced Cadbury investment might not entice private-equity firms without access to cheap debt financing or cost savings from the deal.

Even if Hershey managed to launch a bid, it would be hard to justify a premium to

Kraft's offer. Much of Kraft's expected \$625 million in annual cost-savings relate to overlap across Cadbury's international operations, which Hershey wouldn't have.

And yet, Hershey shares actually rose 1.3% Tuesday. That puts the stock at a heady 18 times next year's consensus earnings forecast—not that much less than Cadbury with a bid premium baked in.

Investors still seem to believe Hershey can turn the situation to its advantage. It remains a stretch to see Hershey beating Kraft on Cadbury. Perhaps they are hoping consolidation elsewhere will force the Trust to rethink its commitment to independence.

—John Jannarone