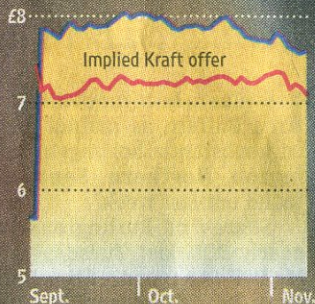


## Resisting Temptation

Cadbury's share price in London



Source: Thomson Reuters Datastream

Cadbury

Bloomberg News

# Cadbury Craves a Sweetener

**Kraft Foods** is going to make **Cadbury** sweat. Waiting until the last minute for its formal bid, the U.S. food giant didn't even match the original 745 pence (\$12.37) a share it offered on Sept. 7. Kraft kept the original terms, but its 5% share-price fall has helped cut the bid's value to 710 pence.

The official bid sets the clock on a three-month wait before shareholders have to decide. Kraft knows it will have to raise its offer during that time to win. But, assuming no interloper shows up, Cadbury investors' appetite for a big price increase might have dulled.

Since the original approach, 550 million, or 40%, of Cadbury shares have changed hands. Many new owners are likely arbitrage players who will want a deal, even if the price is no knockout. Those short-term investors would be hurt badly if Kraft walked and Cadbury shares fell back toward their prebid level of 568 pence.

The waiting game also has risks. It gives time for the European food-and-beverage sector, up 10% since the original approach, to rally further—potentially adding pressure for a bigger premium. If the British pound rallies, it will be costlier

in dollars for Kraft. And there might be time for another set of quarterly updates from both sides. More evidence that Cadbury's performance is outstripping Kraft's would increase doubts about taking the latter's shares as payment.

With a £5.5 billion loan commitment, way above the £4.1 billion in cash so far offered, Kraft has room to raise its bid or increase the cash component. It will have to do so. But Cadbury investors' dreams of the price soaring way above 800 pence look like just that.

—Matthew Curtin  
and John Jannarone