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The Cadbury Takeover
Assessing the fair value of the deal

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Abstract

Starting from September 7th, 2009, when Kraft Foods publicly announced its initial bid for Cadbury, this case examines the strategic acquisition of Cadbury by Kraft Foods, culminating in the final agreement in February 2010. The case focuses on understanding Kraft's rationale for pursuing the acquisition, particularly in the context of slowing growth and increasing competitive pressures within the consumer goods sector. By analyzing the financial implications, expected cost savings, and market reactions, this case aims to determine whether Kraft Foods' final bid was strategically and financially wise.

Keywords

Cadbury, Confectionery market, Consumer Goods, Corporate Finance, Corporate Valuation, Discounted Cash Flow, Financing, Kraft Foods, Merger & Acquisitions, Synergies and Valuation Methods

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Group Part

1 Introducing the Cadbury Takeover

The Consumer-Packaged Goods (CPG) industry has evolved significantly over time, transforming from a collection of small-scale, localized operations to a globalized sector driven by industrial advancements and consumer demand. This transformation contributed to the rise of iconic companies such as Cadbury and Kraft Foods, which became central players in the industry. Throughout its history, the CPG sector has been characterized by a wide range of mergers and acquisitions, as companies sought to expand their portfolios, achieve economies of scale, and strengthen their competitive positions.

The purchase of Cadbury by Kraft Foods in 2010 was a major turning point in the history of international mergers and acquisitions, especially in the food and beverage sector. This cross-border transaction, which was valued at over £11.9 billion, merged two well-known businesses with powerful worldwide brands but totally distinct corporate cultures, operational structures, and marketing approaches. By purchasing Cadbury, a legendary British confectionery company famous for its chocolate, gum, and candy products, Kraft Foods, an American multinational with a diverse portfolio of snack foods, beverages, and packaged goods, aimed to expand its global presence.

In addition to the acquisition's magnitude, it was noteworthy for the difficulties and disputes it caused. A firm anchored in British industrial history, Cadbury inspired pride in the country, and its takeover by a foreign company generated heated public controversy. The possible loss of British jobs, the validity of Cadbury's long-standing commitments to ethical sourcing, and the cultural fit between the two companies were among the issues brought up by critics, who included political

figures and industry experts. These worries emphasized the transaction's emotional and patriotic aspects, which went beyond just economic ones.

If, on the one hand, Kraft could benefit from the synergies created by the unification of the companies, on the other hand, there are some aspects that made this process quite complex. This case goes through the main root for the acquisition, the strategy adopted, and the financial implications from the deal, raising some questions on how much Kraft should be willing to pay to acquire Cadbury, how this acquisition would benefit and strengthen them, and how would the deal influence its financial capacities.

2 From Local Craft to Global Brands: The Evolution of Consumer-Packaged Goods

Consumer Packaged Goods are everyday products that have become essential to modern life, ranging from food and beverages to household items and personal care products. Consumer Packaged Goods are defined as goods that consumers need to replace or repurchase regularly. They have suffered a lot of changes since their first appearance. While these goods are now a widespread part of our daily routines, their origins trace back to a time when production was localized, and branding was nonexistent.

Before the Industrial Revolution, bread, soap, and drinks were made on a small scale by artists, families, and farms. These things were often offered in plain, unbranded packaging, such as cloth or leaves. All of this changed with the introduction of industrialization in the late 1700s. Advances in manufacturing, equipment, and transportation enabled things to be produced in greater quantities and at cheaper costs. These developments made items more inexpensive and available to a broader market. Improvements in transportation, such as railroad growth, allowed items to be dispersed across large distances, bringing them into homes far from where they were produced.

The necessity to transport and preserve these items resulted in new packaging technologies, such as tin cans and glass bottles. These developments not only helped to maintain products fresh, but it also provided opportunities for branding, laying the ground for today's consumer packaged goods industry. Early corporations such as Coca-Cola, Unilever, and Procter & Gamble capitalized on this opportunity by creating distinct brand identities.

By the late 19th century, the emerging culture of consumerism began to influence how things were advertised and sold. Businesses understood that just producing things was no longer enough to compete; distinctiveness became critical. Packaging arose as a significant weapon, with corporations creating unique labels and emblems to distinguish their items on store shelves. Advertising also played an important part in developing brand loyalty. Companies used newspapers, posters, and, subsequently, radio and television to promote the value of their offerings. Iconic companies such as Coca-Cola pioneered this strategy, making their names associated with certain product categories. The emergence of supermarkets in the early twentieth century heightened the importance of branding and packaging, as these stores provided consumers with a diverse range of items in one specific location.

The post-World War II period was an important turning point for the consumer packaged goods business. Economic prosperity in the United States and Europe increased demand for easy, packaged goods. Consumers' rising need for convenience and efficiency led to innovations such as frozen foods, ready-to-eat meals, and disposable packaging. Throughout this time, brands expanded their portfolios to include more diverse products, targeting a wider range of demographics.

Between 1980 and 2009, the CPG industry underwent a period of consistent expansion. During this time, businesses benefited from worldwide population growth, economic prosperity, and

advances in marketing and logistics. The industry increased at a 9% average annual rate and delivered a return on invested capital (ROIC) of 22%. These accomplishments were fueled by rising demand in emerging nations, increased consumer spending in developed economies, and improvements in supply chain efficiencies, all of which contributed to the industry's success. The CPG market was characterized by a wide range of product categories by the late 2000s, with the major segments being food and beverages. Food products included essentials such as dairy, cereals, snacks, and baked goods, while beverages covered alcohol, soft drinks, juices, coffee, tea, and bottled water. Major global players like Nestlé, Kraft Foods, PepsiCo, Coca-Cola, and Diageo led the market.

Recurrent M&A deals in the industry

As the CPG industry matured, mergers and acquisitions (M&A) became a critical strategy for growth. By acquiring competitors or entering complementary markets, companies expanded their reach and diversified their offerings.

M&A transactions provided companies with opportunities to achieve economies of scale, reduce costs, and increase efficiency. By consolidating operations and leveraging shared resources, firms were able to maintain profitability and compete in a rapidly evolving market.

Nestlé’s acquisition of Rowntree’s in 1988 for £2.55 billion was a landmark deal in the confectionery market. The strategic objective was to strengthen Nestlé’s leadership in the global chocolate and confectionery sector by acquiring Rowntree’s iconic brands such as KitKat and Smarties. These brands provided Nestlé with an opportunity to expand its product offerings and penetrate into new markets. The anticipated synergies, estimated to save 10% of Rowntree’s operating costs, primarily driven through manufacturing efficiencies, procurement optimization,

and streamlined administrative functions. Strategically, this acquisition reflected Nestlé's focus on leveraging strong brand name to dominate the confectionery market globally.

Kraft Foods' acquisition of Nabisco in 2000 for $18.9 billion was a transformative deal aimed at strengthening Kraft's presence in the snack food industry. Nabisco's portfolio included iconic brands such as Oreo, Ritz, and Chips Ahoy, which complemented Kraft's existing products. The acquisition was expected to generate $400 million in annual cost synergies through supply chain optimisation, enhanced procurement practices, and streamlined administrative functions. Strategically, this deal positioned Kraft as a leader in the global snack market and allowed it to capitalize on the growing demand for packaged snack foods.

Nestlé's acquisition of Purina in 2001 for $10.3 billion reflected a strategic move into the pet food market. Purina's established presence and strong brand recognition in pet nutrition provided Nestlé with a foothold in a category with consistent demand. The acquisition was anticipated to generate $260 million in annual synergies, primarily through cost savings in production and supply chain efficiencies. Strategically, this deal allowed Nestlé to diversify its portfolio, reducing reliance on traditional food categories while addressing the growing global pet care market.

Procter & Gamble's acquisition of Gillette in 2005, with a deal value of $57 billion, was driven by a strategic objective to combine two complementary product portfolios and expand its market dominance in personal care. Gillette's portfolio, which included razors, Duracell batteries, and Oral-B dental products, aligned with P&G's focus on grooming and personal care categories. The deal also allowed P&G to strengthen its presence in emerging markets, where Gillette had a strong foothold. The merger was projected to generate $1 billion in annual synergies through supply chain efficiencies, consolidated marketing activities, and optimised manufacturing processes. This acquisition solidified P&G's position as a global leader in personal care and household products.

Danone’s acquisition of Numico in 2007 for €12.3 billion represented a strategic shift toward health and nutrition categories, aligning with global trends in health-conscious consumption. Numico, a leader in baby food and clinical nutrition, complemented Danone’s existing dairy and water business and provided access to high-growth markets in Europe and Asia. Annual cost synergies of €60 million were expected through procurement efficiencies, R&D integration, and overhead cost reductions. This deal reflected Danone’s focus on reshaping its portfolio to cater to the rising demand for nutritional and health-focused products.

3 The Rise of Kraft Foods

Kraft Foods, one of the most well-known names in the global food sector, originated in 1903 as a small door-to-door cheese delivery company in Chicago. Its founder, James L. Kraft, and his brothers started the company with a $65 investment, a humble origin for what would eventually become an international food giant.

James L. Kraft's vision and entrepreneurial zeal resulted in groundbreaking advances in food preservation, laying the ground for Kraft's remarkable climb to global domination. Recognizing an untapped market opportunity, Kraft’s innovation came in the form of a patented cheese preservation method. This technology significantly increased cheese shelf life and reduced costs, making it both affordable and accessible to a broader consumer base. The breakthrough received great attention, including a critical contract to supply processed cheese to the American Army during World War I. This collaboration not only demonstrated Kraft's reliability and quality, but also its capacity to satisfy the needs of large-scale operations.

The National Dairy Products Corporation purchased Kraft Foods in 1930, marking the next key turning point in the company's history. While Kraft first functioned autonomously, it was eventually absorbed by its parent corporation. Over the next three decades, Kraft witnessed

consistent expansion through strategic mergers and acquisitions, which allowed it to diversify its offers and increase its market share.

In 1980, Kraft merged with Dart Industries, Inc., a company specializing in batteries, plastics, and household appliances. This merger marked Kraft's foray into diversified industries, an expansion strategy that widened its portfolio. However, the company's most significant transformation occurred in 1988, when Kraft was acquired by Phillip Morris Companies (now Altria Group) for $13.1 billion—a record-breaking $106 per share at the time. This acquisition was the largest merger in the food industry and underscored Phillip Morris's intent to diversify beyond the tobacco sector. To streamline operations, Phillip Morris combined Kraft with its earlier acquisition, General Foods, forming Kraft General Foods, Inc., a formidable entity in the global food market.

Kraft's accelerated rhythm of acquisitions continued into the early 2000s. In 2000, Phillip Morris further strengthened Kraft's market position by acquiring Nabisco Holdings and merging it with Kraft. This move consolidated Kraft's leadership in the food industry but also brought challenges, such as concerns about rising debt levels to finance these deals and the potential for job losses amid restructuring efforts.

On June 13, 2001, Kraft Foods underwent a major structural change when it completed its initial public offering (IPO), issuing 280 million shares at $31 per share. This moment marked Kraft's last day as a wholly owned subsidiary of Altria Group, signaling a new phase of independence. However, by 2007, Kraft faced pressures following a 19% decline in earnings, leading Altria to spin off its majority stake in Kraft. The decision aimed to allow both companies to focus on their respective industries and optimize management efficiency. Following the spinoff, Kraft's leadership transitioned significantly, with Irene Rosenfeld assuming the role of chairman and guiding the company through its next growth phase.

Kraft's international expansion exploded during this period, particularly with acquisitions in emerging markets. A key milestone was Kraft's acquisition of Danone's biscuit operations, which included operations in 19 countries, most notably in China, Russia, and Poland, as well as Danone's headquarters in France. This acquisition broadened Kraft's reach in global markets, strengthening its foothold in the biscuit industry.

By 2009, Kraft had cemented itself as an industry leader with a portfolio of iconic brands such as Oreo, Toblerone, and Dairylea cheese. The company's consistent innovation, global reach, and strategic acquisitions propelled its growth, generating revenues exceeding $40.3 billion annually (Appendix 3).

Kraft Foods' journey from a small, family-operated cheese business to a multinational food giant is a testament to its innovative spirit, strategic growth, and resilience in the face of challenges.

4 Sweet Success: The Cadbury Journey

Cadbury's history is a remarkable journey that covers over two centuries and includes industrial innovation, philanthropy, global expansion and the production of iconic products.

The company's origin dates back to 1824 when John Cadbury opened a small grocery shop in Birmingham. Amongst groceries, he sold cocoa and drinking chocolate. Due to the success of its business, he bought a warehouse nearby and started producing. In 1861, his sons took over, George in charge of production and Richard in charge of sales. At that time, chocolate was a luxury item consumed by the elite, however, it was often bitter and gritty. George Cadbury heard about an innovative cocoa press being used by Dutch manufacturer van Houten and resolved to experiment. By using the cocoa press, George and Richard found they were able to make their cocoa 100% pure and, in 1866, they launched Cadbury Cocoa Essence, which was advertised as 'Absolutely Pure, Therefore Best'.

The construction of a new factory and the first 16 employee homes started in 1879. George envisioned a green community where Cadbury employees were able to escape the filthy and congested city and live in greater comfort.

During war times, Cadbury played a supportive role, offering its factory for the greater good of the country. The company opted to transfer its milk supply to the citizens of Birmingham during World War I, and its production facilities were converted into hospitals and dry vegetable and fruit pulp mills. When World War II broke out, the Bournville plant began producing gun doors for Spitfires, flare cases, aircraft parts, gas masks, and jerrycans.

In 1969, Cadbury merged with Schweppes to form Cadbury Schweppes PLC. This merger expanded Cadbury's portfolio beyond chocolate to include soft drinks. Shortly after, the company went public to secure funding for expansion, modernize operations, and strengthen its competitive position in the confectionery market. The IPO enabled Cadbury Schweppes to raise capital for modernizing manufacturing, investing in research and development and expanding into emerging markets. As a publicly traded entity, the company diversified its product offerings and gained greater access to international markets, solidifying its position as a global leader. However, being publicly traded also made Cadbury vulnerable to hostile takeovers during periods of market volatility.

In 2008, Cadbury Schweppes demerged its confectionery and beverage businesses to address the distinct growth trajectories of each segment. The confectionery division, Cadbury PLC, focused entirely on chocolate, gum, and candy, enabling greater innovation, marketing, and global expansion in high-growth markets such as Asia, Africa, and South America. The beverage operations were spun off into the Dr Pepper Snapple Group, which managed iconic brands like Dr

Pepper and 7UP, concentrating on the North American soft drink market. This strategic split allowed each business to focus on its core strengths and opportunities.

Cadbury as a market player

In 2009, Cadbury, with brands such as Dairy Milk, Trident, or Halls was the second biggest confectionery business in revenue globally. However, their vision was to be the world's biggest and best confectionery company. They desired to continue reinforcing their positions in key markets and maintain their number one position outside the US. By focusing on being the best in the short term, they were aspiring to be the biggest in the long term. Their biggest competitors were Mars, Nestlé and Kraft Foods.

From 2003 until 2008, the confectionery industry grew steadily at about 5% annually, with revenues rising in emerging regions by double digits (10% p.a.) and in developed markets by low single (3% p.a.) digits (***Exhibit 4)***. Cadbury's robust business model fuelled its growth potential. Their portfolio spanned in the three main confectionery categories: chocolate, gum, and candy. In emerging markets, the chocolate segment saw the highest growth, increasing by 13% annually, while in developed markets, the gum segment experienced the greatest growth, rising by 7% (***Exhibit 4).***

They had global dominant positions in over half of the biggest markets. In particular, with a 10.7% market share, they were the largest confectionery company in emerging countries, placing them ahead of major international rivals.

In 2009, Cadbury reported revenue of £5,975 million (***Exhibit 13***), leading to an EBIT of £815 million, an increase from the £648 million EBITDA recorded the previous year. After deducting interest, taxes, depreciation, and amortization, the company achieved a net income of £517 million, reflecting a negative difference of £103 million compared to the prior year´s net income. This

difference is justified by a decreased of margins in 140 bps due to an increase in restructuring costs, a significant increase in growth investment, such as acquisitions made (Intergum and Sansei) and an escalation in raw material costs.

In 2007, Cadbury launched the Vision into Action (VIA) strategic plan to enhance operational efficiency, expand market reach, and reinforce its position as a global leader in confectionery. VIA focused on reconfiguring the supply chain by consolidating manufacturing facilities, optimizing logistics, and creating specialized production centres for core products like chocolate, gum, and candy. These measures aimed to reduce complexity, cut costs and improve responsiveness to market demands.

Cadbury´s goal was to strengthen its distribution networks to support high-growth regions, such as Asia, Africa, and South America, where demand for confectionery was rising significantly. Additionally, VIA expects to optimize working capital through improved inventory management and centralized procurement, enabling cost reductions and reinvestment in growth initiatives.

5 From Resistance to Acquisition: The Cadbury-Kraft Takeover Journey

The Kraft Foods acquisition of Cadbury in 2010 was a dramatic and complex hostile takeover that involved multiple bids and counteroffers, negotiations, and financial strategies.

On September 7, 2009, Kraft Foods, the American giant, begins speculating about making an initial bid for Cadbury. In an effort to improve its standing in the 10%-market-shared worldwide confectionery industry, Kraft is pursuing the British company.

On August 28, 2009, Irene Rosenfeld, the chairperson and CEO of Kraft, meets with Roger Carr, the chairman of Cadbury, to present a buyout offer in a mix of cash and shares that would have

valued Cadbury's shares at 755 pence each, offering 300 pounds in cash and 0.2589 new Kraft shares for each Cadbury share. This offer was declined by Carr.

On September 4, 2009, the last trading day before Kraft Foods' initial bid, Cadbury's share price closed at approximately 568 pence.

Kraft decides to go public with the offer on September 7, 2009, although by then, the offer's value had dropped to 745 pence per Cadbury share, which still represented a 31% premium over the stock price of Cadbury at the time. The proposal maintained the same set up, with 300 pence per share in cash and the remaining component in stock, valuing the entire issued share capital of Cadbury at £10.2 billion ($16.3 billion). Cadbury's board immediately rejected this proposal, calling it "derisory" and insufficient.

The management team, headed by CEO Todd Stitzer, claimed that the offer undervalued Cadbury's strong market position, especially in emerging markets, and overlooked the company's potential for future growth. Until then, Cadbury had always positioned itself as a rapidly growing business with strong revenue growth and profitability. Management felt that Kraft's bid was more of a financial play rather than a strategic move.

The initial offer made by the American company was not only seen by Cadbury, but also by analysts, as an opportunistic move, coming at a time when the target company's share price had been somewhat depressed as a consequence of the financial crisis felt all over the globe.

In October 2009, Cadbury's stock price climbed above Kraft's offer, trading at around 800 pence per share, indicating that investors believed a higher bid was likely. As analysts and shareholders continue to criticize Kraft's original offer as being too low, the American acquirer is under growing pressure to increase its proposal.

Kraft chose to improve the offer and reevaluate its financial options in November 2009. The public and media were still speculating about whether Kraft can continue to carry a manageable debt load while making adequate offers to appease Cadbury shareholders during this time. Concerns about Kraft's ability to manage the financial strain of acquiring Cadbury grew when the company announced plans to raise up to $9.5 billion in debt to fund the deal. The Financial Times highlighted these worries, warning, "There are serious concerns about Kraft's financial health, with the company's plan to fund the acquisition being seen as overly reliant on debt, potentially leaving Kraft shareholders with diluted value and little upside." Credit rating agencies, including Moody's and Standard & Poor's, also flagged potential downgrades due to the substantial debt Kraft would take on.

On December 4, 2009, Kraft Foods officially launched a hostile bid for Cadbury by taking its offer directly to Cadbury shareholders after being rejected by the company's board. This marked a significant escalation in the takeover battle. Kraft's initial offer of £10.2 billion (740 pence per share) had been rejected by Cadbury in September but, by December, Kraft was determined to bypass the board and appeal directly to shareholders. Cadbury continued to reject the offer, maintaining that it undervalued the company.

During this period, Cadbury worked to position itself as a strong standalone company, emphasizing its growth in referred emerging markets and new product innovations, such as Trident gum and Dairy Milk chocolate. In fact, in December 2009 Cadbury announced strong financial results, with profits up 30%, reaffirming its long-term growth strategy, further justifying its stance that Kraft's offers consistently undervalued the company, its history and potential. The management also increased its dividend by 10%, a move intended to demonstrate its confidence in the company's future and to win shareholder support in order to remain independent.

Moreover, the British confectionery company tried to find potential rivals to Kraft that could either offer a higher price or align more with their values and strategy. There was speculation that Cadbury would merge with or even receive rival bids from other confectionery companies, most notably Hershey, a US-based chocolate company, and Ferrero, an Italian confectionery company. Hershey, in particular, had a long-standing distribution relationship with Cadbury in the US and was seen as a more logical fit. However, none of the companies was able to put together a formal counterbid that could compete with Kraft's growing offer due to their smaller sizes and more limited financial resources.

On January 19, 2010, Kraft made its sweetened and final offer to acquire Cadbury, following months of discussions and public exchanges. On January 15, 2010, the last traded day before the final offer, Cadbury's share price had closed at approximately 790 pence, while Kraft's stock price was at $29.58 per share. Kraft raised its bid to 840 pence per share, valuing Cadbury at approximately £11.5 billion ($18.9 billion). The revised proposal consisted of 500 pence in cash and 0.1874 new Kraft shares per Cadbury share.

The stock component remained a point of concern for some Cadbury shareholders, as it tied their fortunes to Kraft's future performance. Although the cash component of the amended offer was increased from 300 to 500 pence per share, the stock component was adjusted downward to reflect changes in Kraft's share price. The acquiring company's stock had fallen over the course of the negotiations, affecting the value of the stock-based portion in the final bid.

The ultimate offer represented a represented a 6.3% premium over the closing price on January 15, 2010, and a 60% premium over the pre-bid price of 524 pence per share before the proposal was made public, making it very appealing to shareholders. However, analysts noted that the transaction was significantly reliant on debt financing, raising questions about Kraft's ability to

generate the necessary synergies to make the purchase viable in the long run. With increasing pressure from shareholders, particularly large institutional investors, Cadbury's board eventually recommended Kraft's revised offer. Major investors like Legal & General supported the deal, viewing the premium as an excellent opportunity.

Cadbury's leadership, while confident in the company's standalone value, recognized that the significantly improved offer and shareholder pressure made accepting the deal the best option for stakeholders.

The stock market responded positively to the final offer, with Cadbury's share price nearing Kraft's bid price. Shareholders who had been waiting for a better offer were generally satisfied with the 840 pence per share price.

On February 2, 2010, Kraft secured approval from over 71% of Cadbury shareholders, surpassing the required threshold for a takeover, marking the culmination of the acquisition process. Under significant shareholder pressure, Cadbury's management officially recommended the deal.

To support the costs incurred in the deal, Kraft implemented a comprehensive financing strategy. In January 2010, Kraft sold its frozen pizza business to Nestlé for about $3.7 billion. This sale, which included brands like DiGiorno, Tombstone, and California Pizza Kitchen frozen pizzas, was strategically aimed at financing the Cadbury deal and reducing debt. On February 8, 2010, Kraft issued $9.5 billion of senior unsecured notes at a weighted average effective rate of 5.364% (due in 3.25, 6, 10, and 30 years) to finance the Cadbury acquisition and for general corporate purposes, as not all the debt financing was directly used for the transaction. In addition, the acquirer decided to issue 262 million additional shares of their Common Stock to finance the equity component of the deal.

6 The Fight to Protect Cadbury's Legacy

Cadbury was more than just a successful confectionery company; it was a cherished British institution, being renowned not only for its iconic Dairy Milk chocolate but also for its ethical business practices. The model village at Bournville, built for its workers, highlighted Cadbury's commitment to employee welfare and social responsibility. When Kraft Foods, known for aggressive cost-cutting and mass-produced goods, made its hostile bid, the British public saw it as an attack on their heritage. The potential acquisition became a national debate about the future of British businesses and the ethics of foreign takeovers. Many Britons feared that Kraft would undermine the traditions and values that had made Cadbury a beloved household name.

From the start, there was significant public and media opposition to the takeover. When Kraft's initial bid was announced in September 2009, Cadbury's chairman, Roger Carr, argued that it "significantly undervalues Cadbury." His comments resonated strongly with the British media, which largely portrayed Kraft as a predator targeting a cherished British company during a vulnerable time.

Reports suggested that Cadbury might fall victim to "corporate cost-cutting and consolidation" if Kraft succeeded. The media depiction of Kraft as a ruthless, cost-driven American corporation fueled fears about potential factory closures, job losses, and damage to Cadbury's product integrity. Opinion pieces in The Daily Telegraph emphasized the need to protect British companies from foreign control, with one article calling the bid "a hostile move against the country's industrial base."

The political response in the UK mirrored public sentiment, with several politicians speaking out against the takeover. British Prime Minister Gordon Brown expressed concern over potential job losses, stating his determination to preserve jobs in the UK.

Concerns over Kraft's reputation further fueled opposition. Kraft's 2007 spinoff from Altria (formerly Philip Morris) and its heavy reliance on debt financing raised alarms about whether Kraft could afford the acquisition without slashing costs at Cadbury. There was widespread fear that Kraft's history of financial engineering and restructuring would lead to factory closures in the UK. Jennie Formby, the Unite union's national officer, warned that a Kraft takeover would be "disastrous for workers" and "devastating for communities" around Cadbury's production sites.

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Exhibits

Exhibit 1 *- CPG performance by era (2005-2020)*

CPG performance by era	2005 - 2010	2015	2020
Revenue, CAGR (%)	9	2	4
EBITDA margin change (bps)	37	177	-44
Average ROIC excluding goodwill (%)	22	25	27
EV/ EBITDA change	+0.4x	+4.4x	+2.2x

Source: McKinsey analysis; S%P Captial IQ

Exhibit 2 *– Share price volatility in M&A Transactions*

Announcement Date	Acquisition Completion Date	Target Name	Acquirer Name	Announced Total Value	Share Price 1-Month Before Acquisition	Share-Price 1-Month Post-Acquisition
June 6, 2000	October 4, 2000	Bestfoods	Unilever	$20.3 billion	$15.26	$17.83
January 16, 2001	December 12, 2001	Ralston Purina	Nestlé	$10.3 billion	$20.95	$21.15
December 4, 2000	August 2, 2001	The Quaker Oats Company	PepsiCo	$13.4 billion	$45.19	$47.30
January 28, 2005	October 1, 2005	The Gillette Company	Procter & Gamble Company	$57 billion	$55.37	$55.25
July 3, 2007	November 30, 2007	Groupe Danone's Biscuit Division	Kraft Foods Inc.	$7.2 billion	$21.33	$21.34
July 25, 2005	August 15, 2005	Scharffen Berger Chocolate Maker	The Hershey Company	$50 million	$60.74	$57.96

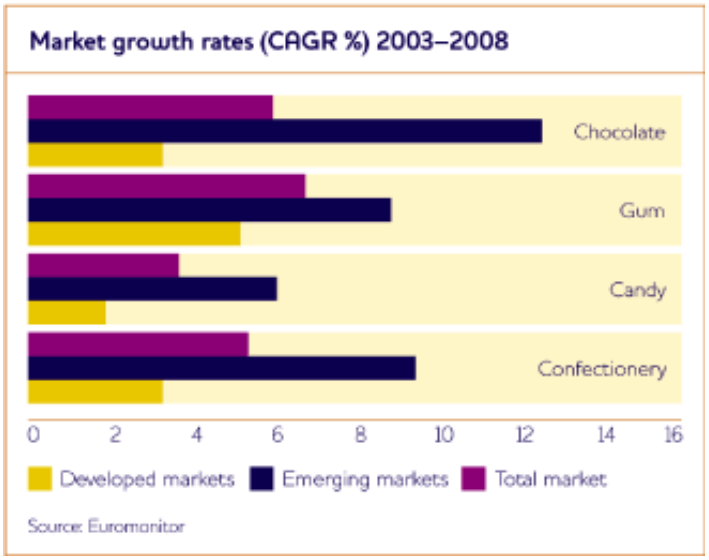
Source: Bloomberg

Exhibit 3 *– Cost synergies in M&A Transactions*

Acquirer	Target	Year	Deal Value (B)	Synergies (M)	Operating Costs t-1(M)	Synergies/ Costs
Nestle	Rowntree's	1988	£ 2.55	n.a.	n.a.	10.00%
Procter & Gamble	Gillete	2005	$ 57	$ 1000	$ 6200	16.13%
Danone	Numico	2007	€ 12.30	€ 60	€ 1,372	4.37%
Kraft	Nabisco	2000	$ 18.9	$ 400	$ 3200	12.50%
Nestle	Purina	2001	$ 10.3	$ 260	$ 800	32.50%

Source: Reuters, Company Reports; Bloomberg and Case writer analysis

Exhibit 4 *- Confectionary growth rate (2003-2008)*



Source: Company Reports

Exhibit 5 *- Kraft Foods' Balance Sheet (2006-2009)*

Assets	**2006**	**2007**	**2008**	**2009**
Cash and cash equivalents	$ 239	$ 567	$ 1,244	$ 2,101
Receivables	$ 3,869	$ 5,197	$ 4,704	$ 5,197
Inventories	$ 3,506	$ 4,096	$ 3,729	$ 3,775
Deferred income taxes	$ 387	$ 575	$ 861	$ 730
Other current assets	$ 253	$ 302	$ 828	$ 651
Total current assets	**$ 8,254**	**$ 10,737**	**$ 11,366**	**$ 12,454**
Property, plant and equipment	$ 9,693	$ 10,778	$ 9,917	$ 10,693
Goodwill	$ 25,553	$ 31,193	$ 27,581	$ 28,764
Intangible assets	$ 10,177	$ 12,200	$ 12,926	$ 13,429
Prepaid pension assets	$ 1,168	$ 1,648	$ 56	$ 115
Other assets	$ 729	$ 1,437	$ 1,232	$ 1,259
TotaL Assets	**$ 55,574**	**$ 67,993**	**$ 63,078**	**$ 66,714**
Liabilities				
Short-term borrowings	$ 1,715	$ 7,385	$ 897	$ 453
Current portion of long-term debt	$ 1,418	$ 722	$ 765	$ 513
Accounts payable	$ 2,602	$ 4,065	$ 3,373	$ 3,766
Accrued marketing	$ 1,626	$ 1,833	$ 1,803	$ 2,181
Accrued employment costs	$ 750	$ 913	$ 951	$ 1,175
Other current liablities	$ 2,362	$ 2,168	$ 3,255	$ 3,403
Total current liabilities	**$ 10,473**	**$ 17,086**	**$ 11,044**	**$ 11,491**
Long-term debt	$ 7,081	$ 12,902	$ 18,589	$ 18,024
Deferred income taxes	$ 3,930	$ 4,876	$ 4,064	$ 4,508
Accrued pension costs	$ 1,022	$ 810	$ 2,367	$ 1,765
Accrued postretirement health care costs	$ 3,014	$ 2,846	$ 2,678	$ 2,816
Other liabilities	$ 1,499	$ 2,178	$ 2,136	$ 2,138
Total Liabilities	**$ 27,019**	**$ 40,698**	**$ 40,878**	**$ 40,742**
Shareholders' Equity				
Common Stock, no par value	-	-	-	-
Additional paid-in capital	$ 23,626	$ 23,445	$ 23,563	$ 23,611
Retained earnings	$ 11,128	$ 12,209	$ 13,345	$ 14,636
Accumulated other comprehensive losses	$ (3,069)	$ 1,835	$ (5,994)	$ (3,955)
Treasury stock, at cost	$ (3,130)	$ (6,524)	$ (8,714)	$ (8,416)
Total Shareholders' Equity	**$ 28,555**	**$ 27,295**	**$ 22,200**	**$ 25,972**
Total Liabilities and Shareholders' Equity	**$ 55,574**	**$ 67,993**	**$ 63,078**	**$ 66,714**

Source: Company Reports

Exhibit 6 - *Kraft Foods' Income Statement (2006-2009)*

	2006	2007	2008	2009
Net revenues	$ 33,256	$ 35,858	$ 41,932	$ 40,386
Cost of sales	$ 21,344	$ 23,656	$ 28,088	$ 25,786
Gross profit	**$ 11,912**	**$ 12,202**	**$ 13,844**	**$ 14,600**
SG&A	$ 7,120	$ 7,587	$ 8,862	$ 9,108
Asset impairment and exit costs	$ 999	$ 440	$ 1,024	$ -64
Gain on redemption of United Biscuits investment	$ -251	$ -	$ -	$ -
Losses / (gains) on divestitures, net	$ -117	$ -14	$ 92	$ 6
Amortization of intangibles	$ 7	$ 13	$ 23	$ 26
Operating income	**$ 4,154**	**$ 4,176**	**$ 3,843**	**$ 5,524**
Interest and other expense, net	$ 510	$ 604	$ 1,240	$ 1,237
Earnings from continuing operations before income taxes	**$ 3,644**	**$ 3,572**	**$ 2,603**	**$ 4,287**
Provision for income taxes	$ 816	$ 1,080	$ 755	$ 1,259
Earnings from continuing operations	**$ 2,828**	**$ 2,492**	**$ 1,848**	**$ 3,028**
Earnings and gain from discontinued operations, net of income taxe	$ 232	$ 232	$ 1,045	$ -
Net earnings	**$ 3,060**	**$ 2,724**	**$ 2,893**	**$ 3,028**

Source: Company Reports

Exhibit 7 - *Kraft Foods' Financial Performance (2006-2009) (in Millions of $)*

	Fiscal Year			
	2006	**2007**	**2008**	**2009**
Total Revenues	**33256.00**	**35858.00**	**40492.00**	**38754.00**
Growth rate YoY		*7.82%*	*12.92%*	*-4.29%*
EBITDA	**5706.00**	**5581.00**	**5824.00**	**6129.00**
EBITDA Margin	*17.16%*	*15.56%*	*14.38%*	*15.82%*
EBIT	**4880.00**	**4739.00**	**4880.00**	**5215.00**
EBIT Margin	*14.67%*	*13.22%*	*12.05%*	*13.46%*
Effective Tax Rate (%)	23.70%	30.50%	28.20%	28.80%
Debt Metrics				
LT Debt	7081.00	12902.00	18589.00	18024.00
ST Debt	3740.00	8107.00	1662.00	966.00
Cash and Cash Equivalents	239.00	567.00	1244.00	2101.00
Number of Shares Outstanding	1635.97	1533.32	1469.30	1478.00
Share Price	35.70	32.63	26.85	27.18
Market Capitalization	58404.13	50032.23	39450.71	40172.04

Source: Company Reports; Bloomberg and Case writer analysis

Exhibit 8 - *Kraft Foods' 2009 WACC components*

Bloomberg Equity Adjusted Beta	0.67
Risk-free rate (10-year U.S. Treasury bond yield)	3.84%
Bloomberg Cost of Debt	3.51%
Market Risk Premium	6.81%

Source: Bloomberg

Exhibit 9 - *Kraft Foods' Effective Tax Rate (2000-2010)*

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Effective Tax Rate	41.40%	45.40%	35.50%	34.90%	32.30%	29.40%	23.70%	30.50%	28.20%	28.80%

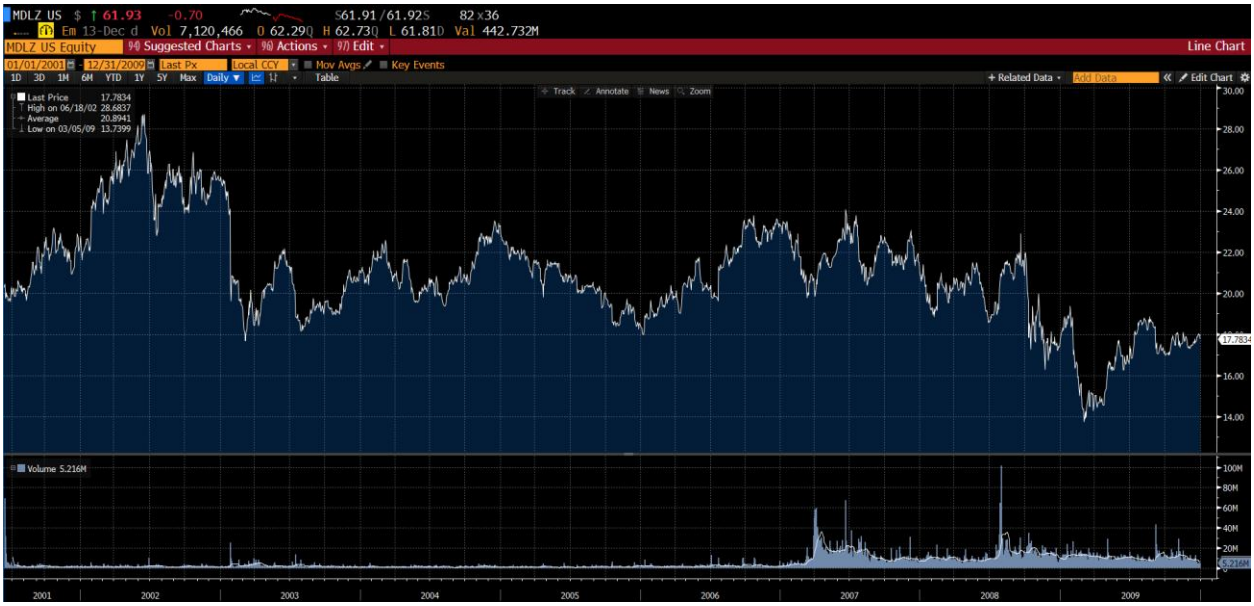
Source: Company Reports

***Exhibit 10** – Projected cost synergies by Kraft Foods*

Proposed synergies by Kraft Foods ($'000)	
Procurement	300 M
G&A	215 M
Marketing	125 M
Other	25 M
Total	675 M

Source: Kraft Foods Annual Report

***Exhibit 11** - Kraft Foods' Historical Price (2001-2009)*



Source: Bloomberg

Exhibit 12 - *Cadbury's Balance Sheet (2006-2009)*

Assets	**2006**	**2007**	**2008**	**2009**
Non-current assets				
Goodwill	£ 2,487	£ 2,805	£ 2,288	£ 2,176
Acquisition intangibles	£ 3,261	£ 3,378	£ 1,598	£ 1,518
Software intangibles	£ 155	£ 149	£ 87	£ 108
Property, plan and equipment	£ 1,664	£ 1,904	£ 1,761	£ 1,869
Investment in associates	£ 22	£ 32	£ 28	£ 28
Investment in subsidiaries	-	-	-	-
Deferred tax assets	£ 170	£ 124	£ 181	£ 241
Retirment benefit assets	-	£ 223	£ 17	-
Trade and other receivables	£ 54	£ 50	£ 28	£ 55
Other investments	£ 2	£ 2	£ 2	£ 1
	£ 7,815	**£ 8,667**	**£ 5,990**	**£ 5,996**
Current assets				
Inventories	£ 728	£ 821	£ 767	£ 748
Short-term investments	£ 126	£ 2	£ 247	£ 29
Trade and other receivables	£ 1,186	£ 1,197	£ 1,067	£ 978
Tax recoverable	£ 36	£ 41	£ 35	£ 42
Cash and cash equivalents	£ 269	£ 493	£ 251	£ 237
Derivative financial instruments	£ 51	£ 46	£ 268	£ 91
	£ 2,396	£ 2,600	£ 2,635	£ 2,125
Assets held for sale	£ 22	£ 71	£ 270	£ 8
Total Assets	**£ 10,233**	**£ 11,338**	**£ 8,895**	**£ 8,129**
Liabilities				
Current liabilities				
Trade and other payables	-£ 1,588	-£ 1,701	-£ 1,551	-£ 1,577
Tax payable	-£ 239	-£ 197	-£ 328	-£ 226
Short-term borrowings and overdrafts	-£ 1,439	-£ 2,562	-£ 1,189	-£ 267
Short-term provisions	-£ 55	-£ 111	-£ 150	-£ 269
Obligations under finance leases	-£ 22	-£ 21	-£ 1	-£ 1
Derivative financial instruments	-£ 35	-£ 22	-£ 169	-£ 94
	-£ 3,378	**-£ 4,614**	**-£ 3,388**	**-£ 2,434**
Non-current liabilities				
Trade and other payables	-£ 30	-£ 37	-£ 61	-£ 65
Borrowings	-£ 1,810	-£ 1,120	-£ 1,194	-£ 1,349
Retirment benefit obligations	-£ 204	-£ 143	-£ 275	-£ 504
Tax payable	-£ 5	-£ 16	-£ 6	-£ 4
Deferred tax liabilities	-£ 1,050	-£ 1,145	-£ 121	-£ 163
Long-term provisions	-£ 18	-£ 61	-£ 218	-£ 84
Obligations under finance leases	-£ 33	-£ 11	-£ 1	-£ 1
Derivative financial instruments	-	-	-	-£ 3
	-£ 3,150	**-£ 2,533**	**-£ 1,876**	**-£ 2,173**
Liabilities directly associated with assets classified as held for sal	-£ 9	-£ 18	-£ 97	-
Total Liabilities	**-£ 6,537**	**-£ 7,165**	**-£ 5,361**	**-£ 4,607**
Net assets	**£ 3,696**	**£ 4,173**	**£ 3,534**	**£ 3,522**
Equity				
Share capital	£ 262	£ 264	£ 136	£ 137
Share premium account	£ 1,171	£ 1,225	£ 38	£ 97
Other reserves	-£ 128	-£ 4	£ 850	£ 654
Retained earnings	£ 2,383	£ 2,677	£ 2,498	£ 2,614
Equity attributable to equity holders of the parent	£ 3,688	£ 4,162	£ 3,522	£ 3,502
Minority interests	£ 8	£ 11	£ 12	£ 20
Total Equity	**£ 3,696**	**£ 4,173**	**£ 3,534**	**£ 3,522**

Source: Company Reports

Exhibit 13 *- Cadbury's Income Statement (2006-2009)*

	2006	2007	2008	2009
Revenues	£ 4,483	£ 4,699	£ 5,384	£ 5,975
Trading costs	-£ 4,071	-£ 4,258	-£ 4,803	-£ 5,215
Restructuring costs	-£ 107	-£ 165	-£ 194	-£ 164
Non-trading items	£ 23	£ 2	£ 1	-£ 89
Profit from operations	**£ 328**	**£ 278**	**£ 388**	**£ 507**
Share of result in associates	-£ 15	£ 8	£ 10	£ 7
Profit before financing and taxation	**£ 313**	**£ 286**	**£ 398**	**£ 514**
Investment revenue	£ 50	£ 56	£ 52	£ 36
Finance costs	-£ 119	-£ 88	-£ 50	-£ 172
Profit before taxation	**£ 244**	**£ 254**	**£ 400**	**£ 378**
Taxation	-£ 68	-£ 105	-£ 30	-£ 103
Profit for the period from continuing operations	**£ 176**	**£ 149**	**£ 370**	**£ 275**
(Loss)/profit for the period from discontinued operations	£ 989	£ 258	-£ 4	£ 235
Profit for the period	**£ 1,165**	**£ 407**	**£ 366**	**£ 510**

Source: Company Reports

Exhibit 14 *- Cadbury's Indirect Costs 2009*

Indirect costs (£'000 000)	**2009**
Distribution costs	262
Marketing and selling costs	629
Administrative expenses	1,110

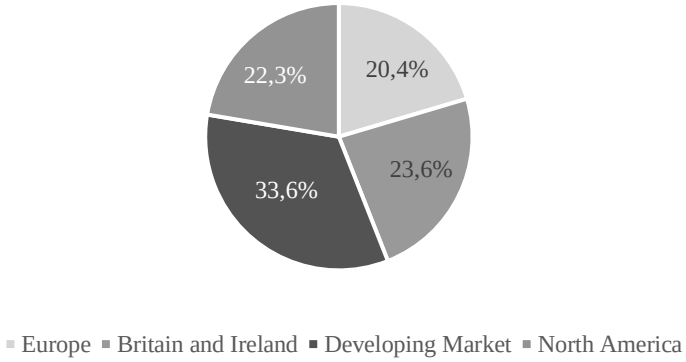
Source: 2009 Cadbury Annual Report

Exhibit 15 *- Cadbury' Financial Performance (2006-2009) (in Millions of $)*

	Fiscal Year			
	2006	**2007**	**2008**	**2009**
Total Revenues	**8782.40**	**9339.20**	**7844.40**	**9651.90**
Growth rate YoY		6.34%	-16.01%	23.04%
EBITDA	**1104.90**	**1180.60**	**1086.90**	**1512.00**
EBITDA Margin	*12.58%*	*12.64%*	*13.86%*	*15.67%*
EBIT	**820.80**	**902.30**	**846.50**	**1214.80**
EBIT Margin	*9.35%*	*9.66%*	*10.79%*	*12.59%*
Effective Tax Rate (%)	27.90%	41.30%	7.50%	27.20%
Debt Metrics				
LT Debt	3545.90	2226.00	1739.60	2179.10
ST Debt	2926.80	5155.50	1735.30	434.60
Cash and Cash Equivalents	672.00	826.80	568.20	382.80
Number of shares outstanding	1328.60	1338.90	1351.00	1370.00
Share Price	16.69	19.39	8.89	12.90
Market Capitalization	22169.00	25967.20	12011.00	17668.70

Source: Company Reports; Bloomberg and Case writer analysis

Exhibit 16 – *Cadbury's Revenues Distribution by Region*

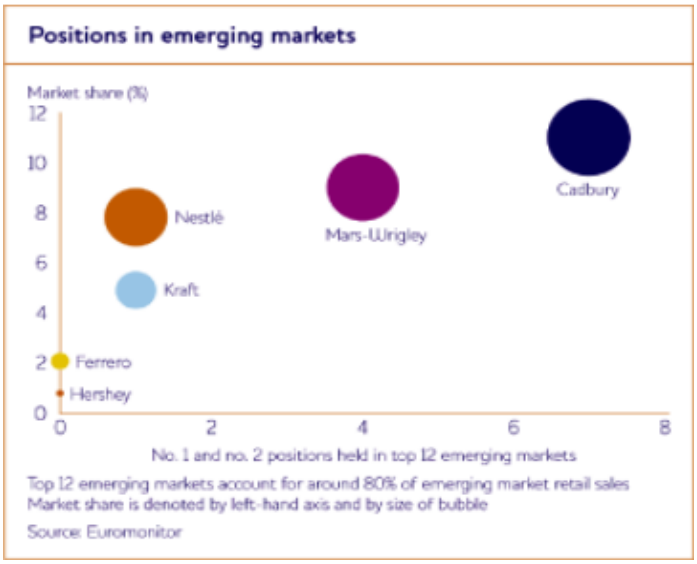


Source: Own Representation

Exhibit 17– *Cadbury's global confectionary market share*

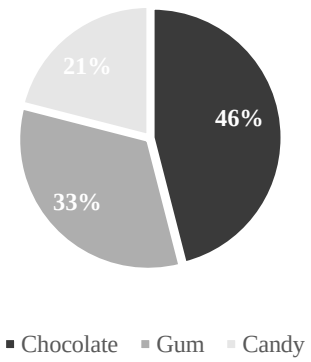
Source: Company Reports

***Exhibit 18** – Cadbury's Market Share in Emerging Markets*



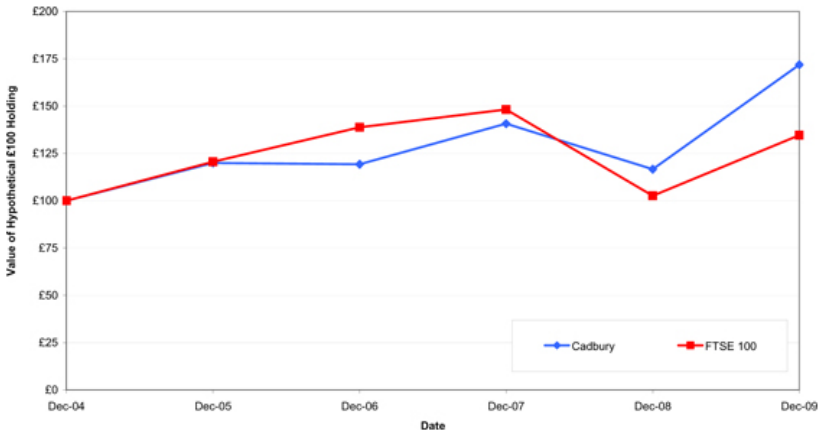
Source: Company Reports

***Exhibit 19** – Cadbury Sales per Segment*



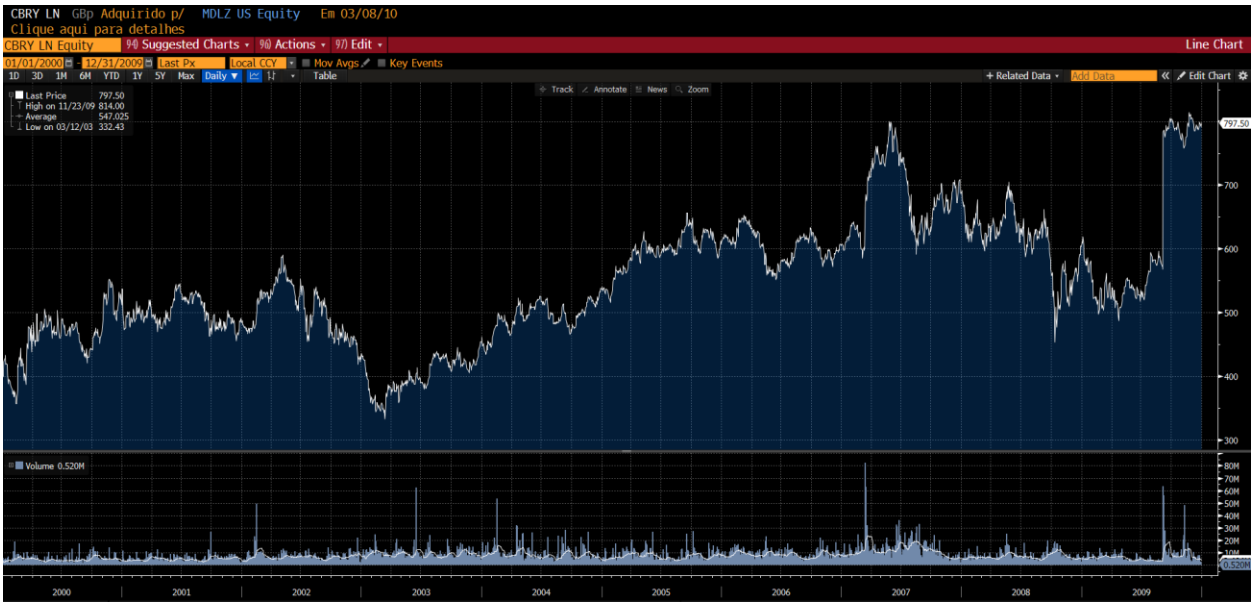
Source: Own Representation

Exhibit 20 *– Cadbury and FTSE100 stock performance (2004-2009)*



Source: Company Reports

Exhibit 21 *– Cadbury's Historical Price (2000-2009)*



Source: Bloomberg

Exhibit 22 *– Cadbury WACC components*

Bloomberg Equity Adjusted Beta	0.79
Risk-free rate (10-year UK Glit Yield)	4.02%
Bloomberg Cost of Debt	3.51%
Market Risk Premium	5.72%

Source: Bloomberg

Exhibit 23 – *Cadbury's Effective Tax Rate (2000-2010)*

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Effective Tax Rate	29.60%	29.60%	30.70%	30.70%	22.60%	16.20%	27.90%	41.30%	7.50%	27.20%

Source: Company Reports

Exhibit 24 – *Peer Group Recent Financial Performance 2009 (in Millions)*

2009	Sales	EBITDA	Equity	Debt	Cash	EV
Company:						
Diageo (£)	12,283	2,676	25,000	8,575	914	32,661
Hershey ($)	5,299	944	7,927	1,542	254	9,216
Reckitt Benckiser (£)	8,453	2,274	24,243	136	355	24,024
Unilever (€)	39,823	6,052	63,004	9,877	3,614	69,267
Kraft Foods ($)	40,386	6,129	40,169	18,990	2,101	57,058
Nestle (Swiss Francs)	107,618	19,068	174,294	23,225	5,159	192,360
Cadbury (£)	5,975	1,035	10,972	1,616	237	12,351

Source: Bloomberg

Exhibit 25 – *Peer Group Recent Financial Performance (in millions)*

Company	Year	Sales	COGS	% COGS	EBIT	% EBIT profit
Kraft ($)	2009	40,386	25,786	64%	5,524	14%
	2008	41,932	28,088	67%	3,843	9%
	2007	35,858	23,656	66%	4,176	12%
Hershey ($)	2009	5,299	3,246	61%	762	14%
	2008	5,133	3,375	66%	590	11%
	2007	4,947	3,315	67%	459	9%
Nestle (Swiss Francs)	2009	107,618	45,208	42%	15,699	15%
	2008	109,908	47,339	43%	15,676	14%
	2007	107,552	45,037	42%	15,024	14%
Cadbury (£)	2009	5,975	3,210	54%	808	14%
	2008	5,384	2,870	53%	638	12%
	2007	4,699	2,504	53%	473	10%

Source: Company Reports

Exhibit 26 - *Nestle's Balance Sheet (2007-2009)*

Assets	2007	2008	2009
Current Assets			
Cash and cash equivalents	6,594 CHF	5,835 CHF	2,734 CHF
Short-term investments	2,902 CHF	1,296 CHF	2,585 CHF
Trade and other receivables	14,890 CHF	13,442 CHF	12,309 CHF
Current income tax receivables	531 CHF	889 CHF	1,045 CHF
Assets held for sale	22 CHF	8 CHF	11,203 CHF
Inventories	9,272 CHF	9,342 CHF	7,734 CHF
Derivative Assets	754 CHF	1,609 CHF	1,671 CHF
Prepaiments and accrued income	805 CHF	627 CHF	589 CHF
Total current assets	**35,770 CHF**	**33,048 CHF**	**39,870 CHF**
Non-current assets			
Property, plant and equipment	22,065 CHF	21,097 CHF	21,599 CHF
iInvestments in associates	8,936 CHF	7,796 CHF	8,693 CHF
Deferred tax assets	2,224 CHF	2,841 CHF	2,202 CHF
Financial assets	4,213 CHF	3,868 CHF	4,162 CHF
Employee benefits assets	1,513 CHF	60 CHF	230 CHF
Goodwill	33,423 CHF	30,637 CHF	27,502 CHF
Intangible assets	7,217 CHF	6,867 CHF	6,658 CHF
Total non-current assets	**79,591 CHF**	**73,167 CHF**	**71,046 CHF**
Total assets	**115,361 CHF**	**106,215 CHF**	**110,916 CHF**
Current Liabilities			
Financial Liabilities	24,541 CHF	15,383 CHF	14,438 CHF
Trade and other payables	14,179 CHF	12,608 CHF	13,033 CHF
Liabilities directly associated with assets held for sale	7 CHF	- CHF	2,890 CHF
Current income tax payables	856 CHF	824 CHF	1,173 CHF
Dervative liablilities	477 CHF	1,477 CHF	1,127 CHF
Accruals and deferred income	3,266 CHF	2,931 CHF	2,779 CHF
Total Current Liabilities	**43,326 CHF**	**33,223 CHF**	**36,083 CHF**
Non-current liabilities			
Financial Liabilities	6,129 CHF	6,344 CHF	8,966 CHF
Employee benefits liabilities	5,165 CHF	5,464 CHF	6,249 CHF
Deferred tax liabilities	1,558 CHF	1,341 CHF	1,404 CHF
Other payables	1,091 CHF	1,264 CHF	1,361 CHF
Provisions	3,316 CHF	3,663 CHF	3,222 CHF
Total non-current liabilities	**17,259 CHF**	**18,076 CHF**	**21,202 CHF**
Total liabilities	**60,585 CHF**	**51,299 CHF**	**57,285 CHF**
Total equity	**54,776 CHF**	**54,916 CHF**	**53,631 CHF**
Total equity and liabilities	**115,361 CHF**	**106,215 CHF**	**110,916 CHF**

Source: Company Reports

Exhibit 27 *- Nestle's Income Statement (2007-2009)*

	2007	2008	2009
Revenues	107,552 CHF	109,908 CHF	107,618 CHF
COGS	45,037 CHF	47,339 CHF	45,208 CHF
Distribution Expenses	9,104 CHF	9,084 CHF	8,420 CHF
Marketing and Administration Epxenses	36,512 CHF	35,832 CHF	36,270 CHF
R&D	1,875 CHF	1,977 CHF	2,021 CHF
EBIT Earnings Before Interest, Taxes, restructuring and impairments	**15,024 CHF**	**15,676 CHF**	**15,699 CHF**
Other income	695 CHF	9,426 CHF	509 CHF
Other expenses	1,285 CHF	2,124 CHF	1,238 CHF
Profit before interest and taxes	**14,434 CHF**	**22,978 CHF**	**14,970 CHF**
Financial income	576 CHF	102 CHF	179 CHF
Financial expense	1,492 CHF	1,247 CHF	794 CHF
Profit before taxes and associates	**13,518 CHF**	**21,833 CHF**	**14,355 CHF**
Taxes	3,416 CHF	3,787 CHF	3,362 CHF
Share of results of associates	1,280 CHF	1,005 CHF	800 CHF
Profit for the period	**11,382 CHF**	**19,051 CHF**	**11,793 CHF**

Source: Company Reports

Exhibit 28 – *Foreign Exchange Rate GBP/USD*

Date	Foreign Exchange Rate GBP/USD
12/31/2009	1.617
12/31/2008	1.4593

Source: Bloomberg

Exhibit 29 - *Average Debt Betas by Rating and Maturity*

By Rating	A and Above	BBB	BB	B	CCC
Avg. Beta	<0.05	0.1	0.17	0.26	0.31
By Maturity	**(BBB and above)**	**1-5 Year**	**5-10 Year**	**10-15 Year**	**>15 Year**
Avg. Beta	-	0.01	0.06	0.07	0.14

Source: S. Schaefer and I. Strebulaev, "Risk in Capital Structure Arbitrage", Standford GSB working paper, 2009

Exhibit 30 - *Annual Issuer-Weighted Corporate Default Rates by Letter Rating, 2000-2009*

Year	Aaa	Aa	A	Baa	Ba	B	Caa-C	INV-GRADE	SPEC-CRADE	ALL RATED
2000	0.000	0.000	0.000	0.390	0.721	5.841	19.476	0.140	6.265	2.577
2001	0.000	0.172	0.172	0.197	1.390	9.561	31.772	0.136	10.316	3.972
2002	0.000	0.172	0.172	1.093	1.374	4.531	28.475	0.461	7.990	3.035
2003	0.000	0.000	0.000	0.000	1.001	2.114	21.612	0.000	5.230	1.797
2004	0.000	0.000	0.000	0.000	0.409	0.844	12.211	0.000	2.441	0.856
2005	0.000	0.000	0.000	0.182	0.000	1.026	6.667	0,068	1.744	0.675
2006	0.000	0.000	0.000	0.000	0.197	1.176	6.051	0.000	1.764	0.656
2007	0.000	0.000	0.000	0.000	0.000	0.000	6.000	0.000	0.959	0.369
2008	0.000	0.370	0.370	0 474	1.159	2.054	15.038	0.430	4.371	2.015
2009	0.000	0.183	0.183	0.771	2.400	7.277	34.166	0.340	12.972	5.355

Sources: Moody's Analytics

Exhibit 31- *Annual Credit Loss Rates by Letter Rating, 2000-2009*

Year	Aaa	Aa	A	Baa	Ba	B	Caa-C	INV-GRADE	SPEC-CRADE	ALL RATED
2000	0.000	0.000	0.000	0.296	0.547	4.430	14.77	0.106	4.751	1.954
2001	0.000	0.000	0.135	0.155	1.092	7.510	24.956	0.107	8.103	3.120
2002	0.000	0.000	0.121	0.77	0.968	3.193	20.067	0.325	5.631	2.139
2003	0.000	0.000	0.000	0.000	0.582	1.229	12.562	0.000	3.040	1.045
2004	0.000	0.000	0.000	0.000	0.196	0.404	5.85	0.000	1.169	0.410
2005	0.000	0.000	0.000	0.082	0.000	0.463	3.008	0.031	0.787	0.305
2006	0.000	0.000	0.000	0.000	0.089	0.529	2.722	0.000	0.793	0.295
2007	0.000	0.000	0.000	0.000	0.000	0.000	2.805	0.000	0.448	0.173
2008	0.000	0.369	0.245	0.314	0.767	1.360	9.955	0.285	2.894	1.334
2009	0.000	0.000	0.114	0.48	1.495	4.534	21.289	0.212	8.083	3.337

Sources: Moody's Analytics

Individual Part – Diogo Pires

Case Synopsis

The 2010 acquisition of Cadbury by Kraft Foods stands as a landmark event in the global food and beverage industry, marked by its scale, complexity, and strategic implications. Valued at $19.6 billion, the deal saw Kraft Foods, a U.S.-based multinational, pursue a high-profile takeover of Cadbury, one of Britain's most cherished companies, renowned for its storied history and strong brand portfolio. Facing slowing growth and increasing competitive pressures, Kraft sought to strengthen its market position through this acquisition. Cadbury's global recognition established presence in emerging markets, and leadership in the confectionery sector made it an ideal target. However, the deal unfolded amid significant resistance, with Cadbury's management, shareholders, and the public raising concerns about job losses, cultural misalignment, and threats to the company's ethical practices.

This case study analyzes the acquisition from a financial perspective. While solving the case, the student should be focusing on the following question: "How much should Kraft Foods pay for Cadbury?". Besides Cadbury business, this deal also brings value to Kraft Foods through synergies. As such, the case requires an assessment of Cadbury's stand-alone valuation, employing methods like the Discounted Cash Flow (DCF) analysis and other valuation approaches, alongside an exploration of the synergies anticipated from integrating the two companies.

Learning objective

- Valuating the company's recent financial results
- Assessing the fair value of a company through the Discounted Cash Flow (DCF)
- Complementing the analysis with other valuation methods
- Assessing synergies on M&A transactions and their impact on the deal value

Target Audience

This case is essentially designed for Master's and MBA students who are specializing in finance. It can be taught in courses such as Mergers & Acquisitions, Corporate Finance, Corporate Valuation. Students should be equipped with the foundational knowledge required to conduct different types of valuation.

Teaching plan

The teaching plan for this case study is structured to be delivered in a single 90 minute session. Students are expected to come prepared, having read the full case study and addressed the Assignment Questions beforehand. To enhance their understanding, students should also research the broader context of the Kraft-Cadbury acquisition, focusing on the financial and strategic factors that shaped the deal. The session will begin with a 10 minute introduction where the instructor provides a summary of the case, emphasizing key elements such as the strategic rationale for the acquisition and the controversy surrounding the deal. During this time, students will share initial insights, setting the stage for a deeper discussion. The next 40 minutes will focus on analyzing Cadbury's financial performance and valuation. Students will evaluate the methods used, including the Discounted Cash Flow (DCF), relative approach and the Adjusted Present Value (APV), critically assessing the assumptions behind each method and their implications for determining Cadbury's stand-alone value. The final 30 minutes will address the role of synergies in shaping the deal value. Students will analyze the potential cost savings and revenue enhancements, considering the challenges of integration and the assumptions made regarding overlap in operations. The session will conclude in the last 10 minutes with students placing themselves in the role of Kraft's board members, debating whether the proposed acquisition price aligns with Cadbury's fair value and strategic importance.

Assignment Questions

1. Prior to the acquisition, what was Cadbury valuation? Please conduct a Discounted Cash Flow (DCF) analysis to determine it.
2. What other valuation methods would be appropriate for this case? Please conduct them.
3. How do synergies impact the deal value? If you were a Kraft Foods board member, would you agree with this proposed acquisition price?

Analysis

Question 1) The valuation method known as Discounted Cash Flow is applied to determine the intrinsic value of a company. Its usefulness derives from the company´s cash flow estimation tailored with precise assumptions (i.e., revenue growth, margins, capital expenditure, working capital changes…). Additionally, it allows access to different scenarios through scenario and sensitivity analysis. However, the characteristics that make it opportune can also be prejudicial. For instance, small changes in assumptions, which suffer from subjective judgments and sometimes biases, can reproduce different valuations. Finally, the heavy reliance on the terminal growth value reduces the reliability of the result.

In order to forecast future cash flows, it is crucial to first analyze the company's financial statements, industry trends, macroeconomic environment, and other relevant factors. In 2009, the world was recovering from a financial crisis that was originated in the U.S. After two years of rising policy interest rates, a vast period of low interest rates, a relaxation of responsible lending criteria and inadequate oversight, the subprime mortgage market collapsed in early 2007, which marked the bursting of the housing bubble. The United States, as a key global trading center, holds various countries dependent on them. Therefore, a crisis in the US expands to the rest of the world.

In this uncertain economic environment, commodity costs rose, in particular the oil price, which escalated Cadbury's transport, packaging and energy costs.

Revenues: Due to the high uncertainty regarding the future, the further in time the estimates are made, the greater is the potential of deviation (Damodaran (2012)). Additionally, while many industries experience fluctuations over the years, the confectionery industry is relatively stable over time, reducing the need to forecast a wider range of years. Therefore, revenues will be projected from 2010 to 2014 (#5 years).

Regarding the developed markets where Cadbury operates, this is, Britain & Ireland, Europe, North America and Asia & Pacific (Exhibit 16), it is assumed the company will grow slightly above market forecast seeing that: (i) it is the one of the market leaders in every segment, benefiting from economies of scale and its strong distribution network to capture more sales as demand increases; (ii) between 2004 and 2008, Cadbury has consistently increased its market share every year (exhibit 17); (iii) its strong brand name enables Cadbury to benefit from consumer loyalty and premium pricing power; (iv) and it was the few among their competitors which were able to increase revenues in 2009, a period marked by a recovering economy. Cadbury is expected to benefit from a combination of overall market growth and market share expansion. Between 2006 and 2008, Cadbury's market share in the confectionery market increased at a CAGR of 0.6%. Therefore, for these regions, Cadbury's revenue growth is projected to equal the forecasted market growth rate plus an additional 0.6%, reflecting its sustained market share gains.

According to 2009's annual report, the company expected emerging markets to outpace developed markets in future product growth rates due to improving living standards and expanding consumer purchasing power. Therefore, Cadbury had been investing in (i) product innovations, specialized in local preferences and (ii) marketing, creating specific advertisements depending on cultures and

consumers. This strategy turned Cadbury into the market leader in the Middle East & Africa and South America (Exhibit 18). For the period spanning 2003-2008, Cadbury has presented a compound annual growth rate (CAGR) of 9% (Exhibit 4). Given this dominant position, it would be inappropriate to compare Cadbury's growth with its competitors. Instead, revenues are expected to grow at a CAGR of 7%, slightly lower than the average of the past five years, accounting for economic uncertainties.

Due to Cadbury's financial statement's structure, revenue analysis was divided into four main regions: (i) BIMA, (ii) Europe, (iii) Americas and (iv) Asia Pacific. The CAGR of all regions projections was approximately 3.91%.

BIMA: BIMA comprises England, Ireland, Middle East and Africa. During the analysed period, this segment has registered an increase in revenue growth in FY09 (FY07: 5%; FY08: 4%; FY09: 11%). As of 2009, Britain and Ireland represented 75% of the sales, while ME&A accounted for 25%.

Cadbury is the market leader in United Kingdom and Ireland, representing 25.7% and 36.8%, respectively. According to Datamonitor, confectionery market value is projected to increase by a CAGR of 1.8% in Britain and 3.1% in Ireland. Therefore, Britain & Ireland segment is expected to grow at a CAGR of 3.05%. As mentioned prior, for the period ranging from 2010 to 2014, Middle East & Africa will grow at a CAGR of 7% (Appendix 23).

Europe: As of 2008, chocolate turnover accounted for 51.5% of the market's total value, while sugar confectionery contributed 35.7% and gum represented 10.2% of the market's revenue. Within this context, Cadbury represents 10% of the confectionery market in Europe.

Cadbury's revenue growth rates on a year-over-year basis were recorded at 7% in 2007, 25% in 2008 and 2% in 2009. According to Datamonitor, confectionery market value will increase by a

CAGR of 2.9% in Europe. Therefore, it is assumed a CAGR of 3.5% (Appendix 23).

Americas: This segment includes North and South America. From 2007 to 2008, the growth was 19%, a huge spike when compared to growth between 2006 and 2007: 3%. In 2009, the rise was 12%. North America accounts for 75% of sales, while South America represents 25%.

In North America, as of 2008, chocolate sales accounted for 50.6% of the market's total value, while sugar confectionery contributed 29.4% and gum represented 10.8% of the market's revenue. Cadbury was the third largest player in the confectionery market, holding a 3% market share.

According to Datamonitor, confectionery market value will increase by a CAGR of 2.7% in the United States. Therefore, it was projected a CAGR of 3.3%. As mentioned prior, South America will grow at a CAGR of 7%, for the period ranging from 2010 to 2014 (Appendix 23).

Asia Pacific: The Asia Pacific segment experienced a YoY growth of 4% in 2007, 17% in 2008 and 20% in 2009. Within this segment, the Pacific region contributes 65% of the sales, while Asia accounts for the remaining 35%. As of 2008, chocolate sales accounted for 43.3% of the market's revenue, while sugar confectionery contributed 40.5% and gum represented 13.9%. Cadbury was the third market leader, representing 8.5% of the confectionery market. According to Datamonitor, confectionery market value will increase by a CAGR of 3% in Asia Pacific. Therefore, it is assumed a CAGR of 3.6% (Appendix 23).

EBIT: The EBIT margin in the forecast will be based on the average of historical data (12.4%), as Cadbury has demonstrated a stable gross margin during the analysed periods and since the confectionery industry is not subject to significant seasonality, as demonstrated with consistent performance over time. Additionally, according to The Guardian, during more volatile times, Cadbury has successfully passed rising raw material costs to consumers, reflecting its pricing power and brand strength.

In 2009, Kraft Foods and Hershey improved EBIT margins mainly due to lower raw material costs, while Cadbury and Nestlé maintained stable COGS-to-turnover ratios. A comparison with industry competitors (Exhibit 25) revealed no consistent trends. Cadbury's EBIT margin has consistently remained on the average of the industry, supporting the use of historical performance as a reliable benchmark.

Earnings Before Tax: To compute Earnings Before Tax (EBT), it was used profit from operations as a starting point, followed by an addition of investment revenue and a deduction of finance costs. The total investment value (Appendix 27) was calculated by summing the captions: short-term investments, investments in associates, retirement benefit assets and other investments.

Short-term will grow with revenues. As revenues grow, cash inflows increase and Cadbury can allocate surplus cash to short-term investments, maintaining a proportional amount of liquid assets. Given that Cadbury's associates operate within the same industry and provide essential services to Cadbury, investments in associates will also grow at the same rate as Cadbury's revenues.

Retirement benefit assets, due to their variability, do not appear to show consistent growth or a need for changes in the forecasted periods. Therefore, it will be assumed the 2024 value: £0. The historical downtrend of investment revenues margin is justified by the macroeconomic environment faced at that time. However, with an anticipated recovery economy, investment revenues are expected to benefit from that, consequently being forecasted as the average of the investment value margin: 23% (Appendix 28).

Regarding finance costs, derivates and other interest were assumed to be £0 for future years, while banks and other loans and commercial paper would grow with revenue. According to management, they want to continue to proactively manage their capital structure to maximise shareholder value while maintaining flexibility to take advantage of opportunities when they arise to grow the

business. Given this, banks and other loans and commercial paper will grow with revenue as companies finance some of their operations and growth strategies through debt. As revenues increase, the demand for working capital and capital expenditures generally rises, leading to higher borrowings. For the forecasted period (2010-2014), EBT margin was 11%. The assumed taxation was a UK tax rate of 28.5%, as stated in Cadbury's 2009 annual report.

Free Cash Flow: Free Cash Flow is an essential tool to understand the actual cash available to the business after accounting for its capital expenditures (CapEx), depreciation and variations in working capital.

Fixed assets, as presented in Appendix 24, comprise (i) Property, plant and equipment (PP&E); (ii) Acquisition intangibles; and (iii) Software intangibles.

For the 2010 to 2014 period, PP&E is expected to growth with revenue. This assumption reflects the industry's need to expand production capacity through new equipment and facilities. As for acquisition intangibles, for simplification purposes, it was assumed no intangibles, such as other brands, will be acquired during the analysed period since there is no expectation regarding this subject. Given the stable proportion of software intangibles relative to revenues (2%), they will be forecasted as such for the periods under analysis.

Regarding depreciation, for the period ranging from 2007 to 2009, the weight of depreciation was assessed for each caption of fixed assets. As the accounting policy of Cadbury states they use the straight-line depreciation method, the average rate of the three years was then applied to forecast the subsequent depreciations (Appendix 25).

In relation to CapEx, to compute its value, it is necessary to assess the difference in fixed assets between two periods and add depreciation. This approach reflects the net change in the value of fixed assets plus depreciation to adjust non-cash reductions in value (Appendix 26). Investments

remain high as Cadbury focuses on expansion but are slightly below the average of analyzed periods, reflecting economies of scale and operational improvements from initiatives like the Vision into Action plan.

Working capital reflects the difference between a company's core current assets and core current liabilities, serving as a measure of operational efficiency. Between 2006 and 2009, Cadbury maintained a negative cash conversion cycle, contrasting with its competitors, who exhibited a positive cash conversion cycle during the same period (Appendix 8, 9 and 10). Average collection, inventories and payables period declined over the period spanning 2007-2009, however, given the economic uncertainty and recession at that time, the 2009 figures were used as the basis for forecasting, reflecting a conservative approach. Therefore, inventories and payables were projected by applying the 2009 average holding period of 85 days and average payable period of 179 days to the forecasted cost of goods sold, which was consistently 53% of revenue during the historical period and maintained at that level for forecasting. Receivables were forecasted by multiplying the 60 days average collection period by the projected revenues (Appendix 29).

Weighted Average Cost of Capital: The Weighted Average Cost of Capital (WACC) is a financial metric that represents the average rate of return that a company is expected to pay to its debt and equity investors, weighted by their respective proportions in the company's capital structure. In 2008, debt was the combination of short-term borrowing and overdrafts and borrowings, which amounted to £1616 million. Additionally, market capitalization was £19,942 million. The cost of equity was calculated using the Capital Asset Pricing Model (CAPM). The UK 10-year Gilts yield of 4.02% was chosen as the risk-free rate, reflecting Cadbury's UK headquarters and the AAA credit rating at the time. The market risk premium, sourced from Bloomberg, was 5.72%. The beta of 0.79 was derived from a linear regression of one year’s weekly

returns against the FTSE 100 index, which represents the largest publicly traded companies on the London Stock Exchange (Exhibit 22). As of 2009, the cost of equity was 8.54% and the cost of debt accounted for 3.51%, both retrieved from Bloomberg. To compute WACC, the following formula was used: $\mathrm{WACC} = (\mathrm{E/V} \times \mathrm{re}) + (\mathrm{D/V} \times \mathrm{rd} \times (1 - \mathrm{T}))$, where: (D= Net Debt; E=Equity; re= Cost of equity; V=Value; rd= Cost of debt)

The final WACC value was 7.76% (Appendix 30).

Terminal Growth Rate: A terminal growth rate of 2.5% was assumed for the forecast. Confectionery products, such as chocolates, candies, and gums, remain a staple in the daily lives of most people. The industry has consistently outpaced inflation and is expecting to continue to benefit from significant innovation opportunities, including the development of new flavours, textures, and combinations. Moreover, emerging markets are driving increased consumption through urbanization, rising disposable incomes and population growth. As a result, the terminal growth rate is expected to grow slightly above the rates of forecasted inflation (2%). The terminal growth value was £9,673 million.

Discounted Cash Flow: The Discounted Cash Flow began with net income, to which was added back depreciation and deducted net working capital and capital expenditures. This resulted in the free cash flow to the firm. It was followed by the discount of the projected FCFF using the WACC. Finally, it was added to the discounted terminal value, providing an enterprise value of £7,5222 million. After subtracting net debt from the EV, the equity value amounted to £6.143 million (Appendix 31), translating to a fair value of £5.49 per share, based on approximately 1.37 billion shares outstanding. In September 2009, prior to Kraft Foods' initial bid, Cadbury's market capitalization stood at approximately £7.12 billion and a share price of £5.68. By the end of 2009,

Bloomberg reported a market capitalization of £10.97 billion, reflecting the market's reaction to the takeover speculation.

Sensitivity analysis: To incorporate flexibility for unforeseen events, both optimistic and pessimistic scenarios were considered alongside a sensitivity analysis for each segment (Appendix 32, 33 and 34). In the pessimistic scenario, growth rates were reduced by 2% across all regions, reflecting potential challenges such as an economic downturn or intensified competition. Additionally, the lowest historical gross margin observed between 2006 and 2009 for each region was applied, accounting for market volatility and the impact it may have on profitability. Under these assumptions, the Enterprise Value (EV) was estimated at £4,775 million. Conversely, the optimistic scenario assumed a 2% increase in growth rates across all regions, reflecting strong demand for chocolate and a consumer preference for Cadbury. This scenario applied the highest historical gross margin from 2006-2009. The resulting enterprise value under this scenario was £9,331 million.

The sensitivity analysis for each region was conducted using WACC, ranging from 6.8% to 8.8%, and the growth rate, adjusted by ±2% from the original rate. The most significant differences are driven by changes in WACC. As shown in Appendix 34, the Americas segment exhibits the highest potential variance.

Question 2) Regarding the relative valuation method, the goal is to identify a broad set of similar companies to the one being valued, regarding industry, size, potential growth, risk profile, among others. This method is simpler and faster to compute when compared with other valuation methods, reflects current market sentiment and uses as reference peers in the same industry. However, it is hard to find suitable companies to incorporate in the analysis, as there is no company equal to another, is subject to market fluctuations, is valued for external factors unrelated to the company's

fundamentals and there is a limited long-term view. For this analysis, the following Cadbury competitors in the food and beverage consumer goods sector were selected as benchmarks: Diageo, Hershey, Reckitt Benckiser, Unilever, Kraft Foods and Nestlé (Exhibit 24). Diageo operates in the consumer goods industry with a focus on beverages and shares a strong presence with Cadbury in overlapping markets, along with increasing exposure to emerging markets. Hershey is a direct competitor in the confectionery market, specializing in products such as chocolate and candy. Reckitt Benckiser, although not directly operating in confectionery, is a significant player in the consumer goods industry, with notable expertise in branding, distribution, and retail. Unilever, with its diverse portfolio of food, beverages, and other consumer products, has an extensive global distribution network and substantial exposure to both developed and emerging markets. Kraft Foods, operating in the packaged foods and confectionery industry, complements Cadbury's product portfolio and has a strong global presence, particularly in North America and Europe. Lastly, Nestlé, with its focus on chocolate and confectionery products, represents a highly relevant comparable to Cadbury. These companies collectively provide a robust basis for evaluating Cadbury's valuation. It was assessed the Enterprise Value/ EBITDA, the Enterprise Value/ Sales, and the Price/ Earnings multiples. Due to the disparities among values and to avoid outliers, it was used the median of each multiple to estimate the Enterprise Value of Cadbury: £10,934 million based on the EV/EBITDA multiple; £10,680 million according to the EV/Sales multiple and £9,677 million through the P/E multiple (Appendix 35). Please note that following the financial crisis, increased risk-aversion among investors and reduced access to affordable credit might have contributed to lower valuation multiples.

Another valuation method used was the Adjusted Present Value (APV). This method divides the valuation into two parts (i) the unlevered firm and (ii) the present value of tax shields. This process

makes it easier to analyze the impact of financing decisions and to study changes in capital structure. However, it is more complex and time consuming than other valuation methods, being less effective if the company´s capital structure remains unchanged. The unlevered free cash flows were discounted using the cost of equity, which was 8.54%. The total of all discounted unlevered free cash flows, including the terminal growth value, was £6,522 million. For the Present Value of Tax Shield, it was applied the cost of debt (3.51%) was applied. This resulted in a Present Value of Tax Shield of £1,046 million. Combining the two approaches, the enterprise value amounted to £7,568 million. Consequently, after accounting for net debt, as done in the DCF model, equity value is 6,189 million (Appendix 36).

Please refer to Appendix 37 for a summary of all valuation methods mentioned before.

Question 3) Synergies derived from an acquisition can be assessed in one of two ways: (i) revenue synergies or (ii) cost savings. Revenue synergies refer to the potential increase in revenue resulting from the combination of two companies, driven by factors such as cross-selling opportunities, expanded geographic reach, improved pricing power, and product diversification. These synergies arise from the enhanced ability of the merged entity to generate greater income than the companies could have achieved individually. However, in the initial years following an acquisition, any potential revenue gains may be offset by factors such as client attrition or disruption during the integration process. Customers may be lost due to changes in service, product offerings, or brand identity, which could mitigate the anticipated benefits from synergies. As a result, it is prudent not to forecast revenue synergies in the early stages.

Regarding cost savings, these generally come from economies of scale or the elimination of duplicated services. Focusing on Cadbury, the company has direct and indirect trading costs. Direct trading costs consist mainly of raw materials, such as cocoa, milk, sugar and sweeteners,

and labor. Indirect operating costs (Exhibit 14) comprise (i) administrative expenses, composed with the cost of information technology, research and development and other back-office functions; (ii) marketing, made up of the cost of brand support through direct advertising, promotional marketing and the costs of supporting the sales and (iii) distribution, including the cost of storing products and transporting them to customers. Since the specific amount of indirect costs for each business region is not available, it will be assumed that each region bears the same proportion of the total indirect costs.

For the synergies assessment, only indirect costs will be considered. Cadbury's focus on chocolate relies primarily on cocoa, sugar and dairy, while Kraft Foods' food portfolio mainly uses ingredients such as flour and oils. Sugar and dairy represent a residual overlap in raw materials. The acquisitions listed in Exhibit 3 are strong comparables to the Kraft Foods-Cadbury deal, as they share similar objectives: expanding product portfolios and entering emerging markets.

The estimated annual cost synergies for each deal were calculated as a proportion of total operating costs. Using a normal distribution, cost savings were assessed for the first and third quartiles (Appendix 38). In regions where both companies had a strong market presence—such as North America, Britain & Ireland, and Europe—the higher overlap in operations and stronger potential for cost savings are driven by shared distribution networks, optimized logistics, and the integration of administrative functions such as HR, IT, and finance. In these markets, the overlaps justify accounting for 24.31% of cost synergies, which falls within the third quartile. In contrast, in regions where Kraft Foods' market presence is weaker than Cadbury's, the potential for cost savings is lower. As such, only 7%, corresponding to the first quartile (Appendix 38), of Cadbury's indirect costs in these regions will be accounted as synergies. To account for possible deviations, a sensitivity analysis was conducted for the percentage of cost savings in each region (Appendix

40). According to Chuck Gottschalk, a TobinLeff partner and a former Ernst & Young CPA, these synergies are realized two or three years after the transaction. This period is characterized by the gradual integration of operational efficiencies and cost savings into the newly merged firm. Therefore, in the first year only 25% of synergies will be accounted for, followed by the second year with 50% of realization and only reaching 100% in the third year. As for integration costs, it will be assumed the £1,300 million in year 2 forecasted by Kraft Foods. As the newly merged firm is exposed to different risk factors, the synergies projected for each year must be discounted by 6.6%, the WACC of the combined entity (Appendix 48). The total synergies amounted to £7,690 million (Appendix 39).

Compared to Kraft Foods estimation, the deal would save $675 million per annum in costs, anticipated to be fully realized by the end of 2012. This integration plan included a one-time implementation cost of $1,300 million incurred in 2012. After applying income tax considerations and discounting the projected cash flows by the weighted average cost of capital (WACC), the acquisition was expected to generate an economic value added of $11,424 million (Appendix 41). In 2009, the exchange rate between the British pound and the U.S. dollar was 1.62 (Exhibit 28). This rate converts Cadbury's equity value of £6,143 million to $9,933 million (Appendix 42). As a member of Kraft Foods Board, I would be willing to pay, at maximum, the stand-alone valuation of Cadbury plus the present value of synergies. Therefore, by adding the projected synergies valued at $12,435 million, the fair deal value would amount to $22,369 million. A sensitivity analysis was conducted to assess the impact of synergy realization at 50%, 75%, and 100% (Appendix 42). At 50% realization, the proposed amount would be excessive, whereas if full synergy was implemented, it would justify the price.

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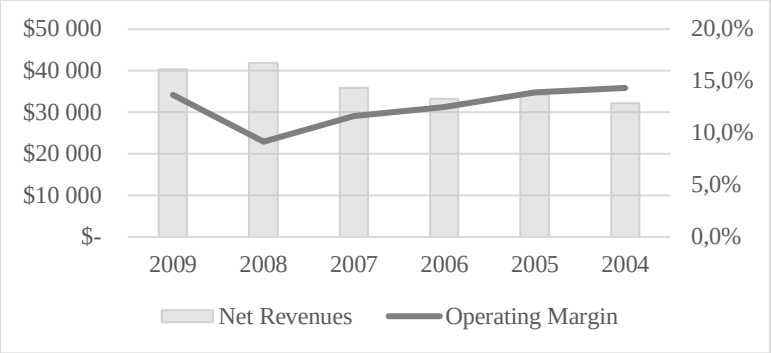
Appendix

Appendix 1 – Kraft's Net revenues and Operating Margin growth



Appendix 2 – Kraft's Operating Margin per Geography

Kraft Foods North America:	2006	2007	2008	2009
U.S. Beverages	7.1%	11.6%	12.7%	16.7%
U.S. Cheese	18.6%	13.0%	14.1%	18.5%
U.S. Convenient Meals	11.1%	8.2%	8.0%	11.3%
U.S. Grocery	38.9%	31.2%	29.8%	33.2%
U.S. Snacks	9.2%	14.7%	12.7%	14.6%
Canada & Foodservice	11.0%	10.9%	10.4%	12.9%
Total Kraft North America	**15.4%**	**14.6%**	**14.1%**	**17.3%**
Kraft Foods European Union	8.2%	6.5%	1.9%	9.0%
Kraft Foods Developing Markets	8.9%	9.8%	9.9%	11.8%
Total Kraft Segment Operating Margin	**12.5%**	**11.6%**	**9.2%**	**13.7%**

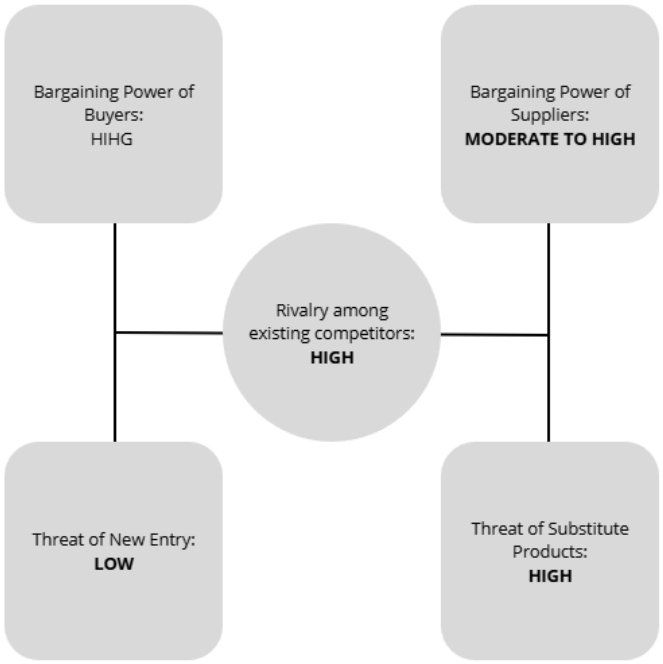
Appendix 3 – *Kraft's revenues by segment and geography (2009)*

2009	North America	Europe	Developing Markets	Total
Snacks	$ 5,929	$ 4,776	$ 4,337	$ 15,042
Beverages	$ 3,545	$ 2,390	$ 2,094	$ 8,029
Cheese	$ 4,980	$ 972	$ 844	$ 6,796
Grocery	$ 3,136	$ 369	$ 566	$ 4,071
Convenient Meals	$ 6,072	$ 261	$ 115	$ 6,448
Total Net Revenues	**$ 23,662**	**$ 8,768**	**$ 7,956**	**$ 40,386**

Appendix 4 – *Kraft's revenue growth by segment and geography variation (2007-2009)*

2009 from 2007	North America	Europe	Developing Markets	Total
Snacks	3.9%	68.6%	53.6%	32.4%
Beverages	1.3%	-2.7%	14.4%	3.1%
Cheese	-4.2%	-4.6%	18.9%	-1.9%
Grocery	-0.1%	1.7%	9.1%	1.3%
Convenient Meals	13.8%	-22.3%	25.0%	11.9%
Total Net Revenues	**3.4%**	**25.1%**	**33.2%**	**12.6%**

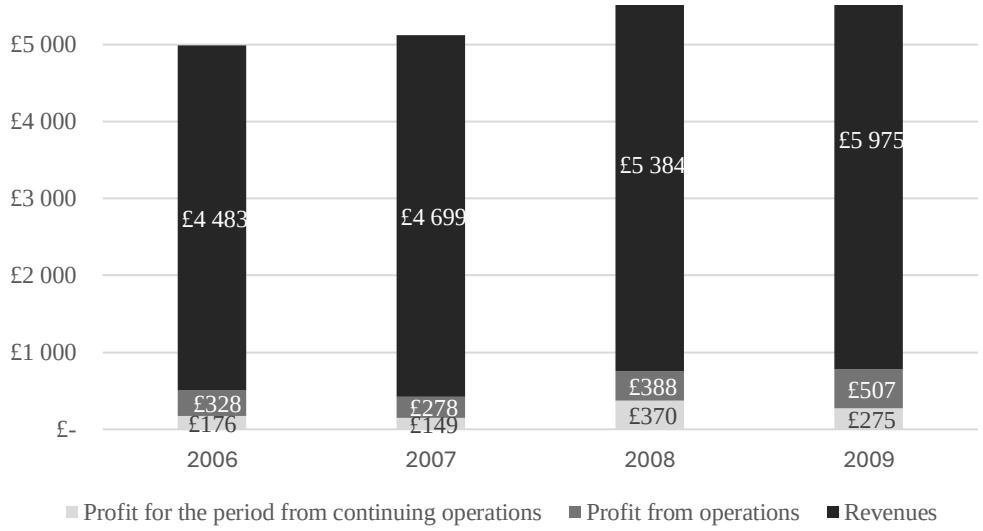
Appendix 5 *– Five Forces of Porter Framework for Confectionary Industry*



Appendix 6 – *Cadbury's results per Geography*

	Total	Europe	BIMA		Americas		Asia Pacific		Central
			Britain and Ireland	Middle East and Africa	North America	South America	Asia	Pacific	
Revenues	£ 5,384	£ 1,117	£ 1,366	£ 454	£ 1,364	£ 462	£ 425	£ 779	£ 8
% of total		20.7%	25.4%	8.4%	25.3%	8.6%	7.9%	14.5%	0.1%
Operating Income	£ 917	£ 123	£ 178	£ 55	£ 287	£ 85	£ 52	£ 137	
% of total		13.4%	19.4%	6.0%	31.3%	9.3%	5.7%	14.9%	
Operating Margin	17.0%	11.0%	13.0%	12.1%	21.0%	18.4%	12.2%	17.6%	

Appendix 7 – *Cadbury's results per year (2006-2008)*



***Appendix 8** – Activity Ratios (Kraft Foods)*

	2009	2008	2007
Average Holding Period	53	48	63
Average Payable Period	53	44	63
Average Collection Period	47	41	53
Cash Conversion Cycle	47	46	53

***Appendix 9** – Activity Ratios (Cadbury)*

	2009	2008	2007
Average Holding Period	85	98	120
Average Payable Period	179	197	248
Average Collection Period	60	72	93
Cash Conversion Cycle	-35	-27	-35

***Appendix 10** – Activity Ratios (Nestlé)*

	2009	2008	2007
Average Holding Period	62	72	75
Average Payable Period	105	97	115
Average Collection Period	42	45	51
Cash Conversion Cycle	-1	19	11

***Appendix 11** – Liquidity Ratios (Kraft Foods)*

	2009	2008	2007
Current Ratio	1.08	1.03	0.63
Quick Ratio	0.90	0.92	0.60
Cash Ratio	0.18	0.11	0.03
Net Working Capital	$ 963	$ 322	$ -6,349

***Appendix 12** – Liquidity Ratios (Cadbury)*

	2009	2008	2007
Current Ratio	0.87	0.78	0.56
Quick Ratio	0.57	0.55	0.39
Cash Ratio	0.11	0.15	0.11
Net Working Capital	-£ 309	-£ 753	-£ 2,014

***Appendix 13** – Liquidity Ratios (Nestlé)*

	2009	2008	2007
Current Ratio	1.10	0.99	0.83
Quick Ratio	0.89	0.71	0.61
Cash Ratio	0.15	0.21	0.22
Net Working Capital	£ 3,787	-£ 175	-£ 7,556

Appendix 14 – *Reformulated Income Statement (Kraft Foods)*

	2009	2008	2007	2006
Core Business				
Net revenues	$ 40,386	$ 41,932	$ 35,858	$ 33,256
Cost of sales	$ 25,786	$ 28,088	$ 23,656	$ 21,344
SG&A	$ 9,108	$ 8,862	$ 7,587	$ 7,120
Core Result before Taxes	**$ 5,492**	**$ 4,982**	**$ 4,615**	**$ 4,792**
Statutory Tax	$ 1,922	$ 1,744	$ 1,615	$ 1,677
Tax adjustments	$ -133	$ -44	$ -50	$ -426
Core Result	**$ 3,703**	**$ 3,283**	**$ 3,050**	**$ 3,541**
Non-Core Business				
Asset impairment and exit costs	$ -64	$ 1,024	$ 440	$ 999
Gain on redemption of United B	$ -	$ -	$ -	$ -251
Losses / (gains) on divestitures,	$ 6	$ 92	$ -14	$ -117
Amortization of intangibles	$ 26	$ 23	$ 13	$ 7
Non-Core Result	**$ 32**	**$ -1,139**	**$ -439**	**$ -638**
Statutory Tax	$ 11	$ -399	$ -154	$ -223
Tax adjustments	$ -107	$ -112	$ -121	$ -33
Earnings and gain from disconti	$ -	$ 1,045	$ 230	$ 232
Non-Core Result	**$ 128**	**$ 417**	**$ 66**	**$ -150**
Financing Business				
Interest expense	$ -1,237	$ -1,240	$ -604	$ -510
Financial Result before Taxes	**$ -1,237**	**$ -1,240**	**$ -604**	**$ -510**
Statutory Tax	$ -433	$ -434	$ -211	$ -179
Financial Result	**$ -804**	**$ -806**	**$ -393**	**$ -332**
Total Comprehensive Income	**$ 3,027**	**$ 2,893**	**$ 2,724**	**$ 3,060**

Appendix 15 – Reformulated Balance Sheet (Kraft Foods)

	2009	2008	2007	2006
Core Business				
Assets				
Receivables	$ 5,197	$ 4,704	$ 5,197	$ 3,869
Inventories	$ 3,775	$ 3,729	$ 4,096	$ 3,506
Other current assets	$ 651	$ 828	$ 302	$ 253
Property, plant and equipment	$ 10,693	$ 9,917	$ 10,778	$ 9,693
Intangible assets	$ 13,429	$ 12,926	$ 12,200	$ 10,177
Total Core Assets	**$ 33,745**	**$ 32,104**	**$ 32,573**	**$ 27,498**
Liabilities				
Accounts payable	$ 3,766	$ 3,373	$ 4,065	$ 2,602
Accrued marketing	$ 2,181	$ 1,803	$ 1,833	$ 1,626
Accrued employment costs	$ 1,175	$ 951	$ 913	$ 750
Other current liablities	$ 3,403	$ 3,255	$ 2,168	$ 2,362
Total Core Liabilities	**$ 10,525**	**$ 9,382**	**$ 8,979**	**$ 7,340**
Total Core Invested Capital	**$ 23,220**	**$ 22,722**	**$ 23,594**	**$ 20,158**
Non-Core Business				
Assets				
Goodwill	$ 28,764	$ 27,581	$ 31,193	$ 25,553
Other assets	$ 1,259	$ 1,232	$ 1,437	$ 729
Total Non-Core Assets	**$ 30,023**	**$ 28,813**	**$ 32,630**	**$ 26,282**
Liabilities				
Total Non-Core Liabilities	**$ -**	**$ -**	**$ -**	**$ -**
Total Non-Core Invested Cap	**$ 30,023**	**$ 28,813**	**$ 32,630**	**$ 26,282**
Financing				
Cash provided by operating	$ 2,101	$ 1,244	$ 567	$ 239
Prepaid pension assets	$ 115	$ 56	$ 1,648	$ 1,168
Deferred income taxes	$ 730	$ 861	$ 575	$ 387
Short-term borrowings	$ 453	$ 897	$ 7,385	$ 1,715
Current portion of long-term d	$ 513	$ 765	$ 722	$ 1,418
Long-term debt	$ 18,024	$ 18,589	$ 12,902	$ 7,081
Accrued pension costs	$ 1,765	$ 2,367	$ 810	$ 1,022
Accrued postretirement health	$ 2,816	$ 2,678	$ 2,846	$ 3,014
Other liabilities	$ 2,138	$ 2,136	$ 2,178	$ 1,499
Deferred income taxes	$ 4,508	$ 4,064	$ 4,876	$ 3,930
Net Financial Assets	**$ -27,271**	**$ -29,335**	**$ -28,929**	**$ -17,885**
Total Invested Capital	**$ 53,243**	**$ 51,535**	**$ 56,224**	**$ 46,440**
Equity	**$ 25,972**	**$ 22,200**	**$ 27,295**	**$ 28,555**

Appendix 16 – *Reformulated Income Statement (Cadbury)*

	2009	2008	2007	2006
Core Business				
Net revenues	£ 5,975	£ 5,384	£ 4,699	£ 4,483
Trading costs	-£ 5,215	-£ 4,803	-£ 4,258	-£ 4,071
Restructuring costs	-£ 164	-£ 194	-£ 165	-£ 107
Non-trading items	-£ 89	£ 1	£ 2	£ 23
Core Result before Taxes	**£ 507**	**£ 388**	**£ 278**	**£ 328**
Statutory Tax	£ 138	£ 29	£ 115	£ 95
Tax adjustments				
Core Result	**£ 369**	**£ 359**	**£ 163**	**£ 233**
Non-Core Business				
Share of result in associates	£ 7	£ 10	£ 8	-£ 15
Investment revenue	£ 36	£ 52	£ 56	£ 50
Non-Core Result before Taxes	**£ 43**	**£ 62**	**£ 64**	**£ 35**
Statutory Tax	£ 12	£ 5	£ 26	£ 10
Tax adjustments				
(Loss)/profit for the period from discontinued operations	£ 235	-£ 4	£ 258	£ 989
Non-Core Result	**£ 266**	**£ 53**	**£ 296**	**£ 1,014**
Financing Business				
Finance costs	-£ 172	-£ 50	-£ 88	-£ 119
Financial Result before Taxes	**-£ 172**	**-£ 50**	**-£ 88**	**-£ 119**
Statutory Tax	-£ 47	-£ 4	-£ 36	-£ 35
Financial Result	**-£ 125**	**-£ 46**	**-£ 52**	**-£ 84**
Total Comprehensive Income	**£ 510**	**£ 366**	**£ 407**	**£ 1,162**

Appendix 17 – Reformulated Balance Sheet (Cadbury)

	2009	2008	2007
Core Business			
Assets			
Receivables	£ 978	£ 1,067	£ 1,197
Inventories	£ 748	£ 767	£ 821
Property, plant and equipment	£ 1,869	£ 1,761	£ 1,904
Total Core Assets	**£ 3,595**	**£ 3,595**	**£ 3,922**
Liabilities			
Trade and other payables	-£ 1,577	-£ 1,551	-£ 1,701
Tax payable	-£ 226	-£ 328	-£ 197
Total Core Liabilities	**-£ 1,803**	**-£ 1,879**	**-£ 1,898**
Total Core Invested Capital	**£ 1,792**	**£ 1,716**	**£ 2,024**
Non-Core Business			
Assets			
Goodwill	£ 2,176	£ 2,288	£ 2,805
Acquisition intangibles	£ 1,518	£ 1,598	£ 3,378
Assets held for sale	£ 8	£ 270	£ 71
Investment in associates	£ 28	£ 28	£ 32
Investment in subsidiaries	-	-	-
Trade and other receivables	£ 55	£ 28	£ 50
Other investments	£ 1	£ 2	£ 2
Total Non-Core Assets	**£ 3,786**	**£ 4,214**	**£ 6,338**
Liabilities			
Trade and other payables	-£ 65	-£ 61	-£ 37
Liabilities directly associated with assets classified as held for sale	-	-£ 97	-£ 18
Total Non-Core Liabilities	**-£ 65**	**-£ 158**	**-£ 55**
Total Non-Core Invested Capital	**£ 3,721**	**£ 4,056**	**£ 6,283**
Financing			
Cash and cash equivalents	£ 237	£ 251	£ 493
Software intangibles	£ 108	£ 87	£ 149
Retirment benefit assets	-	£ 17	£ 223
Short-term investments	£ 29	£ 247	£ 2
Tax recoverable	£ 42	£ 35	£ 41
Derivative financial instruments	£ 91	£ 268	£ 46
Deferred tax assets	£ 241	£ 181	£ 124
Short-term borrowings and overdrafts	-£ 267	-£ 1,189	-£ 2,562
Short-term provisions	-£ 269	-£ 150	-£ 111
Obligations under finance leases	-£ 1	-£ 1	-£ 21
Borrowings	-£ 1,349	-£ 1,194	-£ 1,120
Tax payable	-£ 4	-£ 6	-£ 16
Derivative financial instruments	-£ 94	-£ 169	-£ 22
Deferred tax liabilities	-£ 163	-£ 121	-£ 1,145
Long-term provisions	-£ 84	-£ 218	-£ 61
Retirment benefit obligations	-£ 504	-£ 275	-£ 143
Obligations under finance leases	-£ 1	-£ 1	-£ 11
Net Financial Assets	**-£ 1,988**	**-£ 2,238**	**-£ 4,134**
Total Invested Capital	**£ 5,513**	**£ 5,772**	**£ 8,307**
Equity	**£ 3,525**	**£ 3,534**	**£ 4,173**

Appendix 18 – *Reformulated Income Statement (Nestlé)*

	2009	2008	2007
Core Business			
Revenues	107,618 CHF	109,908 CHF	107,552 CHF
COGS	45,208 CHF	47,339 CHF	45,037 CHF
Distribution Expenses	8,420 CHF	9,084 CHF	9,104 CHF
Marketing and Administration Epxenses	36,270 CHF	35,832 CHF	36,512 CHF
R&D	2,021 CHF	1,977 CHF	1,875 CHF
Core Result before Taxes	**15,699 CHF**	**15,676 CHF**	**15,024 CHF**
Taxes	3,677 CHF	2,719 CHF	3,797 CHF
Core Result	**12,022 CHF**	**12,957 CHF**	**11,227 CHF**
Non-Core Business			
Other income	509 CHF	9,426 CHF	695 CHF
Other expenses	1,238 CHF	2,124 CHF	1,285 CHF
Non-Core Result before Taxes	**- 729 CHF**	**7,302 CHF**	**- 590 CHF**
Taxes	- 171 CHF	1,267 CHF	- 149 CHF
Share of results of associates	800 CHF	1,005 CHF	1,280 CHF
Non-Core Result	**242 CHF**	**7,040 CHF**	**839 CHF**
Financing Business			
Financial income	179 CHF	102 CHF	576 CHF
Financial expense	794 CHF	1,247 CHF	1,492 CHF
Financial Result before Taxes	**- 615 CHF**	**- 1,145 CHF**	**- 916 CHF**
Taxes	- 144 CHF	- 199 CHF	- 231 CHF
Financial Result	**- 471 CHF**	**- 946 CHF**	**- 685 CHF**
Total Comprehensive Income	**11,793 CHF**	**19,051 CHF**	**11,382 CHF**

Appendix 19 – *Reformulated Balance Sheet (Nestlé)*

	2009	2008	2007
Core Business			
Assets			
Trade and other receivables	12,309 CHF	13,442 CHF	14,890 CHF
Inventories	7,734 CHF	9,342 CHF	9,272 CHF
Property, plant and equipment	21,599 CHF	21,097 CHF	22,065 CHF
Prepaiments and accrued income	589 CHF	627 CHF	805 CHF
Intangible assets	6,658 CHF	6,867 CHF	7,217 CHF
Total Core Assets	**48,889 CHF**	**51,375 CHF**	**54,249 CHF**
Liabilities			
Trade and other payables	13,033 CHF	12,608 CHF	14,179 CHF
Accruals and deferred income	2,779 CHF	2,931 CHF	3,266 CHF
Total Core Liabilities	**15,812 CHF**	**15,539 CHF**	**17,445 CHF**
Total Core Invested Capital	**33,077 CHF**	**35,836 CHF**	**36,804 CHF**
Non-Core Business			
Assets			
Goodwill	27,502 CHF	30,637 CHF	33,423 CHF
Assets held for sale	11,203 CHF	8 CHF	22 CHF
Current income tax receivables	1,045 CHF	889 CHF	531 CHF
iInvestments in associates	8,693 CHF	7,796 CHF	8,936 CHF
Total Non-Core Assets	**48,443 CHF**	**39,330 CHF**	**42,912 CHF**
Liabilities			
Liabilities directly associated with assets held for sale	2,890 CHF	- CHF	7 CHF
Current income tax payables	1,173 CHF	824 CHF	856 CHF
Total Non-Core Liabilities	**4,063 CHF**	**824 CHF**	**863 CHF**
Total Non-Core Invested Capital	**44,380 CHF**	**38,506 CHF**	**42,049 CHF**
Financing			
Cash and cash equivalents	2,734 CHF	5,835 CHF	6,594 CHF
Short-term investments	2,585 CHF	1,296 CHF	2,902 CHF
Deferred tax assets	2,202 CHF	2,841 CHF	2,224 CHF
Derivative Assets	1,671 CHF	1,609 CHF	754 CHF
Financial assets	4,162 CHF	3,868 CHF	4,213 CHF
Employee benefits assets	230 CHF	60 CHF	1,513 CHF
Financial Liabilities	14,438 CHF	15,383 CHF	24,541 CHF
Employee benefits liabilities	6,249 CHF	5,464 CHF	5,165 CHF
Dervative liablilities	1,127 CHF	1,477 CHF	477 CHF
Financial Liabilities	8,966 CHF	6,344 CHF	6,129 CHF
Deferred tax liabilities	1,404 CHF	1,341 CHF	1,558 CHF
Other payables	1,361 CHF	1,264 CHF	1,091 CHF
Provisions	3,222 CHF	3,663 CHF	3,316 CHF
Net Financial Assets	**- 23,183 CHF**	**- 19,427 CHF**	**- 24,077 CHF**
Total Invested Capital	**77,457 CHF**	**74,342 CHF**	**78,853 CHF**
Equity	**54,274 CHF**	**54,915 CHF**	**54,776 CHF**

***Appendix 20** – Capital Structure Ratios (Kraft Foods)*

	2009	2008	2007
Gearing Ratio	0.51	0.57	0.51
Debt-to-Equity	1.05	1.32	1.06
Debt-to-EBITDA	4.91	5.97	6.54
Solvency Ratio	0.64	0.54	0.67
Financial Autonomy Ratio	0.39	0.35	0.40
Interest Coverage Ratio	4.47	3.10	6.91

***Appendix 21** – Capital Structure Ratios (Cadbury)*

	2009	2008	2007
Gearing Ratio	0.36	0.39	0.50
Debt-to-Equity	0.56	0.63	0.99
Debt-to-EBITDA	3.87	5.62	14.45
Solvency Ratio	0.76	0.66	0.58
Financial Autonomy Ratio	0.43	0.40	0.37
Interest Coverage Ratio	-2.99	-7.96	-3.25

***Appendix 22** – Capital Structure Ratios (Nestlé)*

	2009	2008	2007
Gearing Ratio	0.30	0.26	0.31
Debt-to-Equity	0.43	0.35	0.44
Debt-to-EBITDA	1.48	1.03	1.32
Solvency Ratio	0.94	1.07	0.90
Financial Autonomy Ratio	0.48	0.52	0.47
Interest Coverage Ratio	19.77	12.57	10.07

***Appendix 23** - Forecasted CAGR by region*

CAGR by region	2009 turnover (£'000 000)	% turnover	Market forecast	Forecasted CAGR
Britain & Ireland	1366	75%	2.45%	3.05%
Middle East & Africa	454	25%	7.00%	7.00%
BIMA	1820	100%		**4.04%**
Europe	1117	100%	2.90%	3.50%
Europe	1117	100%		**3.50%**
North America	1364	75%	2.70%	3.30%
South America	462	25%	7.00%	7.00%
Americas	1826	100%		**4.24%**
Pacific	779	65%	3.00%	3.60%
Asia	425	35%	3.00%	3.60%
Asia Pacific	1204	100%		**3.60%**

Appendix 24 *- Cadbury's Fixed Assets forecast (in Millions of £)*

		2006 H	2007 H	2008 H	2009H	2010F	2011F	2012F	2013F	2014F
Fixed Assets		**5,081**	**5,432**	**3,447**	**3,495**	**3,596**	**3,678**	**3,762**	**3,850**	**3,941**
YoY			7%	-37%	1%	3%	2%	2%	2%	2%
Poperty, plant and equipment		1664	1904	1761	1869	**1,942**	**2,018**	**2,097**	**2,178**	**2,264**
% Revenues	*37%*	37%	41%	33%	33%	36.8%	36.8%	36.8%	36.8%	36.8%
Acquisition intangibles		3261	3378	1598	1518	**1,518**	**1,518**	**1,518**	**1,518**	**1,518**
	1518	73%	72%	30%	25%	24.5%	23.5%	22.6%	21.8%	21.0%
Software intangibles		155	149	87	108	**136**	**142**	**147**	**153**	**159**
% Revenues	*2%*	3%	3%	2%	2%	2%	2%	2%	2%	2%

Appendix 25 *- Cadbury's Depreciation forecast (in Millions of £)*

		2006 H	2007 H	2008 H	2009H	2010F	2011F	2012F	2013F	2014F
Depreciations		**180**	**173**	**196**	**220**	**204**	**210**	**217**	**224**	**232**
Depreciation of PPE		147	138	161	186	**171**	**177**	**184**	**191**	**199**
% PPE	*9%*		7%	9%	10%	9%	9%	9%	9%	9%
Amortization of definite life acquisiton intangibles		5	5	4	4	**3**	**3**	**3**	**3**	**3**
% Acquisition intangibles	*0%*		0.1%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Amortization of software intangibles		28	30	31	30	**30**	**30**	**30**	**30**	**30**
% Software intangibles	*28%*		20%	36%	28%	28%	28%	28%	28%	28%

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Appendix 26 *- Cadbury's CapEx forecast (in Millions of £)*

		2006 H	2007 H	2008 H	2009H	2010F	2011F	2012F	2013F	2014F
CAPEX		**384**	**409**	**500**	**408**	**305**	**291**	**301**	**312**	**323**
YoY			7%	22%	-18%	-25%	-4%	3%	3%	4%
% Revenue	*9%*	9%	9%	9%	9%	9%	9%	9%	9%	9%

Appendix 27 *- Cadbury's Investment forecast (in Millions of £)*

		2006 H	2007 H	2008 H	2009H	2010F	2011F	2012F	2013F	2014F
Investments		**150**	**259**	**294**	**58**	**190**	**198**	**205**	**213**	**222**
YoY			73%	14%	-80%	228%	4%	4%	4%	4%
Short-term investments		126	2	247	29	**154**	**160**	**166**	**173**	**179**
% Revenues	*2.48%*	3%	0%	5%	0%	2.5%	2.5%	2.5%	2.5%	2.5%
Investment in associates		22	32	28	28	**34**	**35**	**36**	**38**	**39**
% Revenues	*0.54%*	0.5%	0.7%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Retirement benefit assets		0	223	17	0	-	-	-	-	-
% Revenues	*1.69%*	0%	5%	0%	2%					
Other investments		2	2	2	1	**3**	**3**	**3**	**3**	**3**
% Revenues	*0.04%*	0%	0%	0%	0%	0%	0%	0%	0%	0%

Appendix 28*- Cadbury's Interest forecast (in Millions of £)*

	2006 H	2007 H	2008 H	2009H	2010F	2011F	2012F	2013F	2014F
Investment revenue	**50**	**56**	**52**	**33**	**13**	**43**	**45**	**47**	**49**
% investment		37.33%	20.08%	11.22%	23%	23%	23%	23%	23%
Finance costs	**(119)**	**(88)**	**(50)**	**(134)**	**(156)**	**(162)**	**(169)**	**(175)**	**(182)**
Derivatives	0	19	94	(18)	0	0	0	0	0
Bank and other loans	(92)	(55)	(112)	(125)	(110)	(114)	(118)	(123)	(128)
% margin	2%	1%	2%	2%	2%	2%	2%	2%	2%
Commercial Paper	(27)	(52)	(29)	(5)	(47)	(48)	(50)	(52)	(54)
% margin	1%	1%	1%	1%	1%	1%	1%	1%	1%
Other interest	0	0	(3)	(24)	0	0	0	0	0

Appendix 29 *- Cadbury's Working Capital forecast (in Millions of £)*

		2006H	2007 H	2008 H	2009H	2010F	2011F	2012F	2013F	2014F
Net Working Capital		**390**	**437**	**381**	**234**	**159**	**165**	**172**	**178**	**185**
% Revenue		9%	9%	7%	4%	3%	3%	3%	3%	3%
Working Capital Assets		**1,978**	**2,138**	**1,932**	**1,811**	**1,789**	**1,859**	**1,931**	**2,007**	**2,085**
Inventories		728	821	767	748	773	803	834	867	901
Average holding period	*85*	64	120	98	85	85	85	85	85	85
Trade and other receivables		1186	1197	1067	978	1,016	1,056	1,097	1,140	1,184
Average collection period	*60*	97	93	72	60	60	60	60	60	60
Working Capital Liabilities		**(1,588)**	**(1,701)**	**(1,551)**	**(1,577)**	**(1,630)**	**(1,694)**	**(1,760)**	**(1,828)**	**(1,900)**
Trade and other payables		(1,588)	(1,701)	(1,551)	(1,577)	(1,630)	(1,694)	(1,760)	(1,828)	(1,900)
Average payable period	*179*	139	248	197	179	179	179	179	179	179

Appendix 30 *- Weighted Average Cost of Capital (WACC)*

WACC	7.76%	(E/V×re) + (D/V ×rd×(1−T))

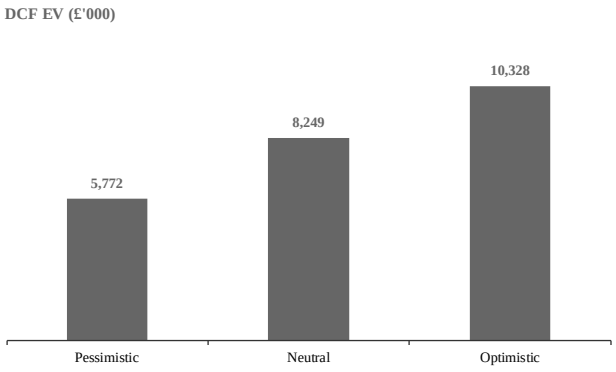
Re	8.54%	Bloomberg
Rd	3.51%	Bloomberg
Equity (£'000 000)	10,942	Bloomberg
Debt (£'000 000)	1,616	ST Debt + LT Debt
Value (£'000 000)	12,558	(Debt + Equity)
D/V	12.9%	(Debt/ Value)
E/V	87.1%	(Equity/ Value)

Appendix 31 *- Discounted Cash Flow (in Millions of £)*

Income statement	**2006**	**2007**	**2008**	**2009**	**2010***	**2011***	**2012***	**2013***	**2014***
Revenue	**4,483**	**4,699**	**5,384**	**5,975**	**6,208**	**6,451**	**6,703**	**6,964**	**7,237**
Underlying profit from operations	**465**	**473**	**638**	**808**	**764**	**798**	**834**	**872**	**911**
Profit from operations	**450**	**481**	**648**	**815**	**764**	**798**	**834**	**872**	**911**
Investment revenue	50	56	52	33	13	43	45	47	49
Finance costs	(119)	(88)	(50)	(134)	(156)	(162)	(169)	(175)	(182)
EBIT	**381**	**449**	**650**	**714**	**621**	**680**	**711**	**743**	**777**
Taxation	(68)	(105)	(30)	(197)	(177)	(194)	(203)	(212)	(222)
Net income	**313**	**344**	**620**	**517**	**444**	**486**	**508**	**532**	**556**
Depreciation	180	173	196	220	204	210	217	224	232
NWC		437	381	234	159	165	172	178	185
Δ NWC			(56)	(147)	(75)	6	6	7	7
CAPEX	384	409	500	408	305	291	301	312	323
FCFF					**418**	**399**	**417**	**437**	**458**
Discounted FCF					387	343	334	324	315
Cumulative PV of FCFF	**1,388**								
Terminal Value	**8,914**								
PV of Terminal Value	**6,134**								

Enterprise Value	7,522
Shares outstanding	1.37
Price per share	5.49
Equity	**6,143**
Debt	1616
Cash	237

Appendix 32 *- Scenario analysis*



Appendix 33 *- Sensitivity analysis by region*

BIMA (£'000 000)		Growth rate				
		2.04%	3.04%	4.04%	5.04%	6.04%
WACC	6.76%	9,437	9,399	9,354	9,303	9,244
	7.26%	8,417	8,382	8,341	8,294	8,241
	7.76%	7,592	7,560	7,522	7,479	7,431
	8.26%	6,912	6,881	6,846	6,807	6,762
	8.76%	6,341	6,312	6,279	6,242	6,201

Europe (£'000 000)		Growth rate				
		1.50%	2.50%	3.50%	4.50%	5.50%
WACC	6.76%	9,416	9,387	9,354	9,317	9,275
	7.26%	8,398	8,371	8,341	8,307	8,270
	7.76%	7,574	7,550	7,522	7,491	7,457
	8.26%	6,894	6,872	6,846	6,818	6,786
	8.76%	6,324	6,303	6,279	6,253	6,224

Americas (£'000 000)		Growth rate				
		2.24%	3.24%	4.24%	5.24%	6.24%
WACC	6.76%	9,221	9,289	9,354	9,417	9,477
	7.26%	8,226	8,285	8,341	8,395	8,447
	7.76%	7,422	7,473	7,522	7,569	7,614
	8.26%	6,758	6,803	6,846	6,888	6,927
	8.76%	6,201	6,241	6,279	6,316	6,351

Asia Pacific (£'000 000)		Growth rate				
		1.60%	2.60%	3.60%	4.60%	5.60%
WACC	6.76%	9,334	9,346	9,354	9,360	9,362
	7.26%	8,325	8,335	8,341	8,345	8,346
	7.76%	7,509	7,517	7,522	7,525	7,525
	8.26%	6,836	6,842	6,846	6,848	6,848
	8.76%	6,272	6,276	6,279	6,280	6,279

Appendix 34 *- Delta sensitivity analysis*

BIMA (£'000 000)		Growth rate				
		1.10%	2.10%	3.10%	4%	5.10%
WACC	6.76%	1,915	1,877	1,832	1,780	1,722
	7.26%	895	860	819	772	719
	7.76%	70	38	-	(43)	(91)
	8.26%	(611)	(641)	(676)	(716)	(760)
	8.76%	(1,181)	(1,210)	(1,243)	(1,280)	(1,321)

Europe (£'000 000)		Growth rate				
		1.50%	2.50%	3.50%	5%	5.50%
WACC	6.76%	1,894	1,865	1,832	1,795	1,753
	7.26%	875	849	819	785	748
	7.76%	52	27	-	(31)	(65)
	8.26%	(628)	(650)	(676)	(704)	(736)
	8.76%	(1,198)	(1,219)	(1,243)	(1,269)	(1,299)

Americas (£'000 000)		Growth rate				
		2.01%	3.01%	4.01%	5%	6.01%
WACC	6.76%	1,699	1,767	1,832	1,895	1,954
	7.26%	704	763	819	873	925
	7.76%	(101)	(49)	-	47	92
	8.26%	(764)	(719)	(676)	(634)	(595)
	8.76%	(1,321)	(1,281)	(1,243)	(1,206)	(1,171)

Asia Pacific (£'000 000)		Growth rate				
		2.00%	3.00%	4.00%	5%	6.00%
WACC	6.76%	1,812	1,824	1,832	1,837	1,840
	7.26%	803	812	819	823	824
	7.76%	(13)	(5)	-	3	3
	8.26%	(686)	(680)	(676)	(674)	(674)
	8.76%	(1,251)	(1,246)	(1,243)	(1,242)	(1,243)

Appendix 35 *- Comparables Valuation*

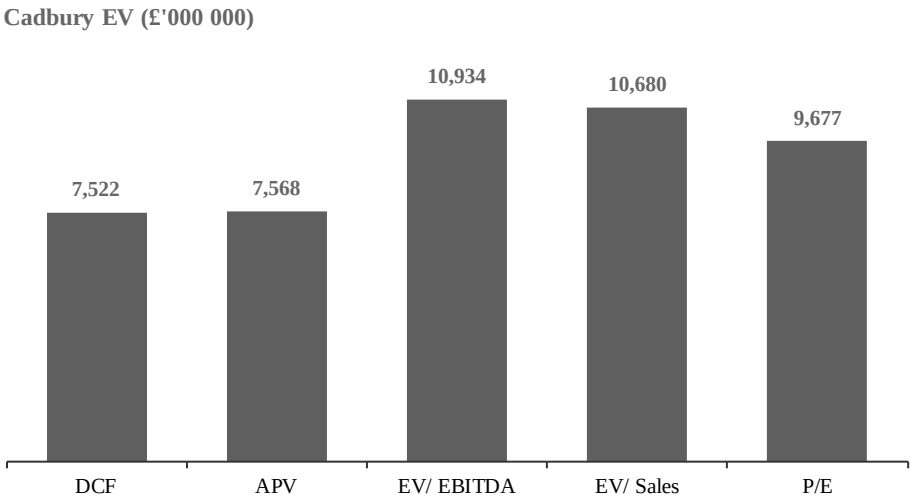
Multiples			2009
	EV/ EBITDA	EV/ Sales	P/E
Company:			
Diageo	12	3	2
Hershey	10	2	1
Reckitt Benckiser	11	3	3
Unilever	11	2	2
Kraft Foods	9	1	1
Nestle	10	2	2
Cadbury	12	2	2
Median	10.56	1.79	1.62
Average	10.76	2.04	1.78
Cadbury EV (£'000 000)	10,934	10,680	9,677

Appendix 36 *- Adjusted Present Value (in Millions of £)*

Income statement	**2006**	**2007**	**2008**	**2009**	**2010***	**2011***	**2012***	**2013***	**2014***
Revenue	**4,483**	**4,699**	**5,384**	**5,975**	**6,208**	**6,451**	**6,703**	**6,964**	**7,237**
Underlying profit from operations	**465**	**473**	**638**	**808**	**764**	**798**	**834**	**872**	**911**
Profit from operations	**450**	**481**	**648**	**815**	**764**	**798**	**834**	**872**	**911**
Investment revenue	50	56	52	33	13	43	45	47	49
Finance costs	-	(88)	(50)	(134)	(156)	(162)	(169)	(175)	(182)
EBT	**381**	**449**	**650**	**714**	**621**	**680**	**711**	**743**	**777**
Taxation	(68)	(105)	(30)	(197)	(177)	(194)	(203)	(212)	(222)
Net income	**313**	**344**	**620**	**517**	**444**	**486**	**508**	**532**	**556**
Depreciation	180	173	196	220	204	210	217	224	232
NWC		436.67452	381	234	159	165	172	178	185
Delta NWC			(56)	(147)	(75)	6	6	7	7
CAPEX	384	409	500	408	305	291	301	312	323
Unlevered FCF					418	399	417	437	458
Discounted UFCF					385	338	326	315	304
TGV									7,769
PV of TGV									5,157
Vu	**6,522**								
Financing expense	69	32	(2)	101	143	119	124	128	133
Tax shield	12	7	(0)	28	41	34	35	37	38
Discounted Tax shield					39	32	32	32	32
TGV									1,083
PV of TGV									911
PV tax Shield	**1,046**								

EV	7,568
Shares outstanding	1.37
Price per share	5.53
Equity	**6,189**
Debt	1616
Cash	237

Appendix 37 *- Summary Valuation Methods*



Appendix 38 *– Normal distribution of Synergies*

Acquirer	Target	Year	Deal Value (B)	Synergies (M)	Operating Costs t-1(M)	Synergies/ Costs
Nestle	Rowntree's	1988	£ 2.55	n.a.	n.a.	10.00%
Procter & Gamble	Gillete	2005	$ 57	$ 1000	$ 6200	16.13%
Danone	Numico	2007	€ 12.30	€ 60	€ 1,372	4.37%
Kraft	Nabisco	2000	$ 18.9	$ 400	$ 3200	12.50%
Nestle	Purina	2001	$ 10.3	$ 260	$ 800	32.50%

1st quartile	7.19%
average	15.10%
median	12.50%
3rd quartile	24.31%

Appendix 39 *- Cost Synergies by Region*

Synergies (£'000 000)	2008	2009	2010*	2011*	2012*	2013*	2014*
Indirect costs							
Britain & Ireland	563	608	644	670	698	726	755
North America	376	416	441	460	480	500	521
Europe	376	381	398	411	426	441	456
Realisation	0%	0%	25%	50%	100%	100%	100%
Cost savings (24%)	**-**	**-**	**90**	**187**	**390**	**405**	**10,529**
South America	127	141	149	156	162	169	176
ME&A	136	141	152	161	167	174	181
Asia Pacific	329	389	406	420	435	451	467
Realisation	0%	0%	25%	50%	100%	100%	100%
Cost savings (7%)	**-**	**-**	**13**	**26**	**55**	**57**	**1,482**
Cost savings	**-**	**-**	**-**	**-**	**445**	**462**	**12,011**
Integration costs					-1300		
Additional EBITDA	**-**	**-**	**90**	**187**	**(855)**	**462**	**12,011**
Tax	-	-	(26)	(54)	-	(134)	(3,483)
Net income	-	-	64	133	(855)	328	8,528
Discounted FCF	**-**	**-**	**60**	**125**	**(802)**	**308**	**8,000**
Total value	**7,690**						

Appendix 40 *– Synergies Sensitivity Analysis*

Synergies (£'000 000)		Developed markets				
		20.00%	**22.00%**	**24.31%**	**26.00%**	**28.00%**
In Development markets	**5.19%**	6,001	6,645	7,391	7,934	8,578
	6.19%	6,150	6,795	7,540	8,083	8,728
	7.19%	6,300	6,945	7,690	8,233	8,878
	8.19%	6,450	7,094	7,840	8,383	9,027
	9.19%	6,600	7,244	7,990	8,533	9,177

Appendix 41 *- Expected Deal Synergies by Kraft Foods*

Synergies ($'000 000)	2008	2009	2010*	2011*	2012*	2013*	2014*
Cost savings	**-**	**-**	**169**	**338**	**675**	**675**	**16,875**
Integration costs					-1300		
Additional EBITDA	**-**		**169**	**338**	**(625)**	**675**	**16,875**
Tax	-	-	(49)	(98)	-	(196)	(4,894)
Net income	-	-	120	240	(625)	479	11,981
Discounted FCF	**-**	**-**	**112**	**209**	**(586)**	**450**	**11,239**
Total value	**11,424**						

Appendix 42 *- Fair Deal Value*

Deal value (£'000 000)			
DCF	Synergies realisation	Synergies PV	**DCF + Synergies**
	50%	3,845	**9,988**
6,143	75%	5,768	**11,911**
	100%	7,690	**13,833**

Deal value ($'000 000)			
DCF	Synergies realisation	Synergies PV	**DCF + Synergies**
	50%	6,218	**16,151**
9,933	75%	9,326	**19,260**
	100%	12,435	**22,369**

Appendix 43 *- Kraft Foods' Historical D/V and E/V Analysis (in Millions of $)*

Kraft Foods' Historical D/V and E/V (in Millions of $)				
	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**
Long-term Debt	7081.00	12902.00	18589.00	18024
Short-term Debt	3740.00	8107.00	1662.00	966
Total Debt	10821.00	21009.00	20251.00	18990
- Cash and Cash Equivalents	239.00	567.00	1244.00	2101
Operating Cash (5% of Cash and Cash Equivalents)	11.95	28.35	62.20	105.05
Net Debt	10593.95	20470.35	19069.20	16994.05
N. of shares outstanding (in Millions)	1635.97	1533.32	1469.3	1478
Share Price EoY (in $)	35.7	32.63	26.85	27.18
Market Capitalization	58404.129	50032.2316	39450.705	40172.04
Enterprise Value	68998.079	70502.5816	58519.905	57166.09
D/V	**15.35%**	**29.03%**	**32.59%**	**29.73%**
E/V	**84.65%**	**70.97%**	**67.41%**	**70.27%**

Appendix 44 *- Kraft Foods' WACC Calculation before acquisition (as of 31/12/2009)*

Kraft Foods' WACC 2009 Calculation (Pre-Acquisition)		
Assumptions	**Values**	**Reasoning**
Beta_e (historical)	0.67	Adjusted 2009 Beta; Source: Bloomberg
Risk free rate	3.84%	10-year U.S. Treasury bond yield; Source: Bloomberg
Equity Risk premium	4.80%	Source: Bloomberg
MRP	6.81%	Source: Bloomberg
Corporate tax rate	28.80%	Kraft Foods Inc' Annual Report 2009
Cost of Debt	3.51%	Source: Bloomberg
Cost of Equity	8.64%	
WACC	**6.81%**	

Appendix 45 *- D/V and E/V Estimate for the Merged Entity after acquisition in 2010 (in Millions of $)*

Kraft Foods' D/V and E/V 2010 (in Millions of $)			
	Cadbury FY2009 (in Millions of $)	**Kraft Foods FY2009 (in Millions of $)**	**Merged entity 2010E (in Millions of $)**
Exchange Rate GBP/USD EoY	1.62	-	-
Long-term Debt	2179.98	18024.00	29703.98
Short-term Debt	432.77	966.00	1398.77
Total Debt	2612.75	18990.00	31102.75
- Cash and Cash Equivalents	429.5	2101.00	2530.50
Operating Cash	21.475	105.05	126.53
Net Debt	2204.73	16994.05	28698.78
N. of shares outstanding (in Millions)	1372	1478.00	1740.00
Share Price EoY (in $)	12.88	27.18	28.03
Market Capitalization	17668.66	40172.04	48772.2
Enterprise Value	19873.39	57166.09	77470.98
D/V	**11.09%**	**29.73%**	**37.04%**
E/V	**88.91%**	**70.27%**	**62.96%**

Appendix 46 *– Regression Analysis of Share Price on M&A Transactions*

Transactions	**Price per share 1-month prior ($)**	**Price per share 1-month post ($)**	**Change (%)**
Unilever Acquires Bestfoods	15.26	17.83	16.84%
Nestlé Acquires Ralston Purina	20.95	21.15	0.95%
PepsiCo Merges with Quaker Oats	45.19	47.3	4.67%
Procter & Gamble Acquires Gillette	55.37	55.25	-0.22%
Kraft Foods Acquires Groupe Danone's Biscuit Division	21.33	21.34	0.05%
Hershey's Acquisition of Scharffen Berger Chocolate Maker	60.74	57.96	-4.58%

SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.996535649
R Square	0.993083301
Adjusted R Square	0.991354126
Standard Error	1.735671684
Observations	6

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	1730.14273	1730.14273	574.310523	1.7982E-05
Residual	4	12.0502248	3.0125562		
Total	5	1742.19295			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	2.380670033	1.60171672	1.48632402	0.21138872	-2.0664085	6.82774859	-2.0664085	6.82774859
X Variable 1	0.943821878	0.03938371	23.9647767	1.7982E-05	0.83447516	1.05316859	0.83447516	1.05316859

RESIDUAL OUTPUT

Observation	*Predicted Y*	*Residuals*
1	16.78339189	1.04660811
2	22.15373838	-1.0037384
3	45.0319807	2.2680193
4	54.64008742	0.60991258
5	22.51239069	-1.1723907
6	59.70841091	-1.7484109

***Appendix 47**- Kraft Foods' Average Effective Tax Rate (2000-2009)*

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Effective Tax Rate	41.4%	45.4%	35.5%	34.9%	32.3%	29.4%	23.7%	30.5%	28.2%	28.8%
Average Effective Tax Rate										**33.0%**

***Appendix 48** - Kraft Foods' WACC Calculation after acquisition in 2010*

WACC 2010 Calculation (Post-Acquisition)		
Assumptions	**Values**	**Reasoning**
Net Debt	28698.78	
Total Market Cap	48772.2	
Enterprise Value	77470.975	
D/V	37.04%	
D/E	62.96%	
Credit rating	BBB	
Beta_d	0.1	Average Debt Beta for BBB credit rating
Beta_u	0.51	
Beta_e	0.71	
Corporate tax rate	33.00%	Average Effective Tax Rate 10Y (FY2000-FY2009)
Risk free rate	3.84%	10-year U.S. Treasury bond yield for 2009; Source: Bloomberg
MRP	6.81%	
ERP	4.87%	
Cost of Debt	4.52%	
Cost of Equity	8.71%	
WACC	**6.60%**	

***Appendix 49** – Annual Corporate Probability of Default and Credit Loss Rates for a credit rating BBB (2000-2009)*

Rating BBB (2000-2009)				
Year	**Probability of Default (%)**	**Average Probability of Default (%)**	**Loss Given Default (%)**	**Average Loss Given Default (%)**
2000	0.390	0.29%	0.296	0.21%
2001	0.197		0.155	
2002	1.093		0.770	
2003	0.000		0.000	
2004	0.000		0.000	
2005	0.182		0.082	
2006	0.000		0.000	
2007	0.000		0.000	
2008	0 474		0.314	
2009	0.771		0.480	

7 The Aftermath of the Deal

Kraft promised that the deal would drive growth, especially in emerging markets, and expand its global presence. However, the deal sparked significant public and political backlash, along with challenges arising in the years following the acquisition.

In the aftermath of the acquisition of the Cadbury, Kraft Foods sought to integrate the company into its broader portfolio, but the financial and operational complexities quickly became apparent. The integration fell short of expectations and its highly associated costs contributed to a reduction of Kraft Foods´net profit of 24%. Cadbury's sales remained stagnant.

One of the most controversial moments in the early phase of integration was the closure of Cadbury's Somerdale factory in Keynsham, England. During the bidding process, Kraft had assured that it would keep the Somerdale factory open, which was slated for closure under Cadbury's independent plan. However, shortly after the deal closed, Kraft announced it would shut the factory and move production to Poland. Unite trade union representative Jennie Formby condemned the move as "a betrayal of the workforce," accusing Kraft of misleading employees and the public. The factory's closure resulted in the loss of over 400 jobs and provoked widespread criticism from unions, politicians, and the British public. The closure became emblematic of the broader concerns that had been voiced during the takeover process. Many Britons believed Kraft had misled the public to push the deal through.

The cultural differences between the two companies became increasingly evident. Kraft's focus on cost-cutting and operational efficiency contrasted sharply with Cadbury's long-established values of heritage, community and ethical business practices. Many employees and stakeholders believed Cadbury's identity was being stripped away in favor of profit margins.

This acquisition also significantly shifted Kraft Foods' capital structure. To finance the $19 billion deal, Kraft issued a combination of debt and equity. This included a $9.5 billion bridge loan and the issuance of new shares, which increased the company's leverage and impacted its credit ratings. Notably, the company was already on credit watch when the acquisition was announced, reflecting concerns about the financial implications of the deal. Following the deal closing, Fitch Ratings decided to downgrad Kraft's credit rating to BBB-, reflecting the increased debt burden and integration risks. On the other hand, Moody's Investors decided to maintain the same ratings for Kraft Food's, stating the company is likely to recover within two years from the possible damage made to its credit profile by the acquisition.

The years following the acquisition were marked by significant restructuring within Kraft Foods. In 2011, Kraft announced its decision to split into two separate entities: a high-growth global snacks business and a North American grocery company. By October 2012, this restructuring was completed, resulting in the creation of Mondelez International, which took ownership of Kraft's snack and confectionery brands, including Cadbury, Oreo, and Trident gum. The remaining Kraft Foods entity retained the grocery business and focused on North American staples such as cheese and packaged meals. This division, seen by many as a financial maneuver, only intensified the belief that Cadbury was used as a financial asset rather than being valued for its brand and heritage. Mondelez prioritized expanding its snack portfolio in emerging markets, where Cadbury's strong brand presence in countries like India, South Africa, and parts of Asia was a major asset.

Mondelez closed several factories in the UK and Australia, shifting production to lower-cost locations such as Poland and Mexico. These cost-cutting measures, designed to save $3 billion annually, improved the company's financial outlook but alienated parts of its customer base. Critics argued that shifting production undermined product quality and hurt the brand's legacy.

Changes to Cadbury's Dairy Milk recipe, such as using palm oil, further upset consumers who felt that the company had sacrificed quality for profit.

At the same time, Cadbury faced growing competition. Smaller artisanal chocolate brands and global competitors began to take advantage of the perception that Cadbury had moved away from its roots.

Before the merger, Cadbury was celebrated for its ethical business practices, including its commitment to Fairtrade chocolate and community welfare. In 2016, Mondelez announced it would phase out the Fairtrade certification for Cadbury Dairy Milk products, replacing it with its own Cocoa Life program. While Mondelez argued that Cocoa Life was designed to support sustainable cocoa farming practices, critics viewed the move as a step away from third-party accountability (The Independent). This decision sparked debate about the balance between corporate sustainability initiatives and maintaining consumer trust.

Over a decade after the acquisition, the legacy of the Kraft-Cadbury deal remains a topic of debate. Mondelez International has successfully used Cadbury's global presence to drive growth in emerging markets, contributing to its position as a leader in the global snack industry.

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