

The Cadbury Takeover: Evaluating the Global Strategy of Kraft Foods

Group constitution:

Student Name	Program	Individual Title
Diogo Norton Pires	Finance	The Cadbury Takeover: Assessing the Fair Value of the Deal
Frederico Teodoro Vieira	Management	The Cadbury Takeover: Evaluating the Global Strategy of Kraft Foods
Inês Coutinho Casaca Ventura	Finance	The Cadbury Takeover: An Analysis of Kraft Foods' Capital Structure Decisions

Work project carried out under the supervision of:

Advisor: Rui Silva

Co-advisor: Margarida Soares

<i>Group Part</i>	3
1 Introducing the Cadbury Takeover	3
2 From Local Craft to Global Brands: The Evolution of Consumer-Packaged Goods	4
3 The Rise of Kraft Foods	8
4 Sweet Success: The Cadbury Journey	10
5 From Resistance to Acquisition: The Cadbury-Kraft Takeover Journey	13
6 The Fight to Protect Cadbury’s Legacy	18
Exhibits List	20
Exhibits	21
<i>Individual Part – Frederico Vieira</i>	34
Case Synopsis	34
Learning Objectives	34
Target Audience	35
Teaching Plan	35
Assignment Questions	35
Analysis	36
References	48
<i>Appendix list</i>	50
<i>Appendix</i>	51
7 The Aftermath of the Deal	61
Bibliography	64

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.

Exhibits List

<i>Exhibit 1 - CPG performance by era (2005-2020)</i>	21
<i>Exhibit 2 – Share price volatility in M&A Transactions</i>	21
<i>Exhibit 3 – Cost synergies in M&A Transactions</i>	21
<i>Exhibit 4 - Confectionary growth rate (2003-2008)</i>	22
<i>Exhibit 5 - Kraft Foods' Balance Sheet (2006-2009)</i>	22
<i>Exhibit 6 - Kraft Foods' Income Statement (2006-2009)</i>	23
<i>Exhibit 7 - Kraft Foods' Financial Performance (2006-2009) (in Millions of \$)</i>	23
<i>Exhibit 8 - Kraft Foods' 2009 WACC components</i>	23
<i>Exhibit 9 - Kraft Foods' Effective Tax Rate (2000-2010)</i>	23
<i>Exhibit 11 - Kraft Foods' Historical Price (2001-2009)</i>	24
<i>Exhibit 12 - Cadbury's Balance Sheet (2006-2009)</i>	25
<i>Exhibit 13 - Cadbury's Income Statement (2006-2009)</i>	26
<i>Exhibit 14 - Cadbury's Indirect Costs 2009</i>	26
<i>Exhibit 15 - Cadbury' Financial Performance (2006-2009) (in Millions of \$)</i>	26
<i>Exhibit 16 – Cadbury’s Revenues Distribution by Region</i>	27
<i>Exhibit 17– Cadbury’s global confectionary market share</i>	27
<i>Exhibit 18 – Cadbury’s Market Share in Emerging Markets</i>	28
<i>Exhibit 19 – Cadbury Sales per Segment</i>	28
<i>Exhibit 20 – Cadbury and FTSE100 stock performance (2004-2009)</i>	29
<i>Exhibit 21 – Cadbury’s Historical Price (2000-2009)</i>	29
<i>Exhibit 22 – Cadbury WACC components</i>	29
<i>Exhibit 23 – Cadbury’s Effective Tax Rate (2000-2010)</i>	30
<i>Exhibit 24 – Peer Group Recent Financial Performance 2009 (in Millions)</i>	30
<i>Exhibit 25 – Peer Group Recent Financial Performance (in millions)</i>	30
<i>Exhibit 26 - Nestle's Balance Sheet (2007-2009)</i>	31
<i>Exhibit 27 - Nestle's Income Statement (2007-2009)</i>	32
<i>Exhibit 28 – Foreign Exchange Rate GBP/USD</i>	32
<i>Exhibit 29 - Average Debt Betas by Rating and Maturity</i>	32
<i>Exhibit 30 - Annual Issuer-Weighted Corporate Default Rates by Letter Rating, 2000-2009</i> .	32
<i>Exhibit 31- Annual Credit Loss Rates by Letter Rating, 2000-2009</i>	33

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 Capital IQ

Exhibit 2 – Share price volatility in M&A Transactions

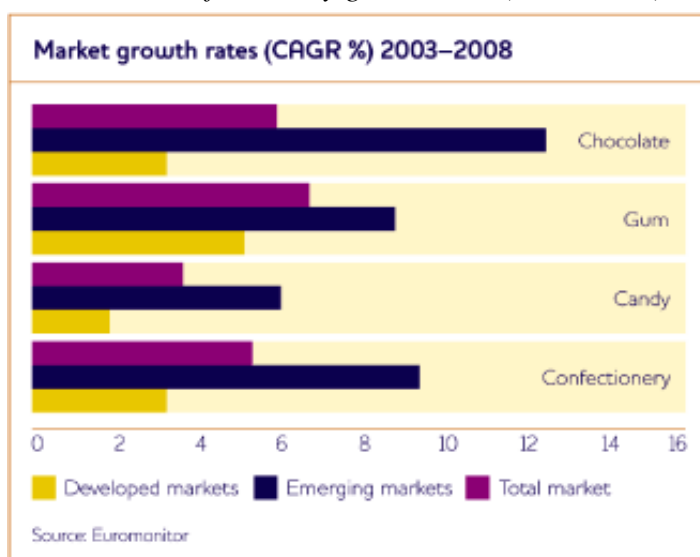
Announcement Date	Acquisition Completion Date	Target Name	Acquirer Name	Announced Total Value	Share Price 1-Month Before Acquisition	Share-Price 1-Month Post-Acquisition
June 6, 2000	October 4, 2000	Bestfoods	Unilever	\$20.3 billion	\$15.26	\$17.83
January 16, 2001	December 12, 2001	Ralston Purina	Nestlé	\$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)

	2006	2007	2008	2009
Assets				
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 liabilities	\$ 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 tax	\$ 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, plant 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
Retirement 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
Retirement 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 sale	-£ 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

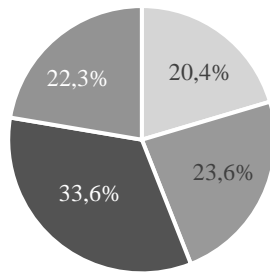
Source: 2009 Cadbury Annual Report

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
<i>Growth rate YoY</i>		6.34%	-16.01%	23.04%
EBITDA	1104.90	1180.60	1086.90	1512.00
<i>EBITDA Margin</i>	12.58%	12.64%	13.86%	15.67%
EBIT	820.80	902.30	846.50	1214.80
<i>EBIT Margin</i>	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



■ Europe ■ Britain and Ireland ■ Developing Market ■ North America

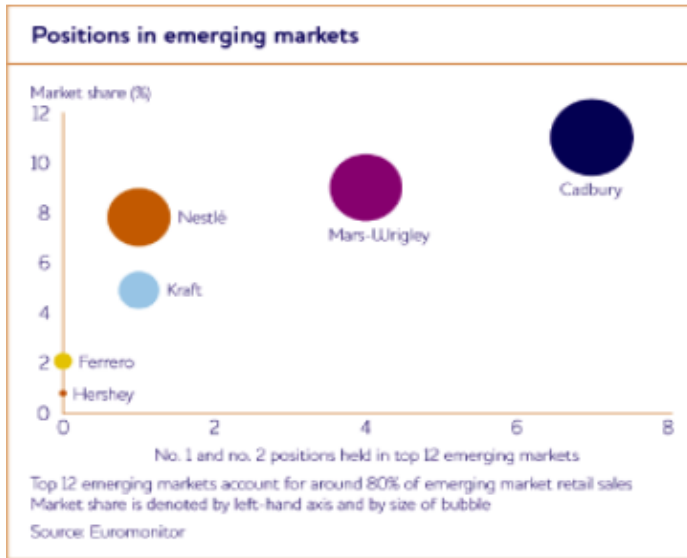
Source: Own Representation

Exhibit 17– Cadbury’s global confectionery market share



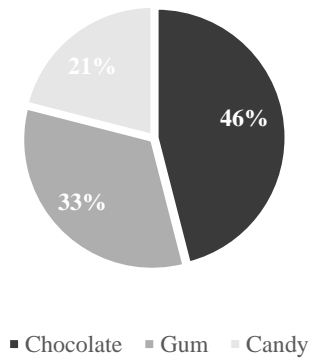
Source: Company Reports

Exhibit 18 – Cadbury’s Market Share in Emerging Markets



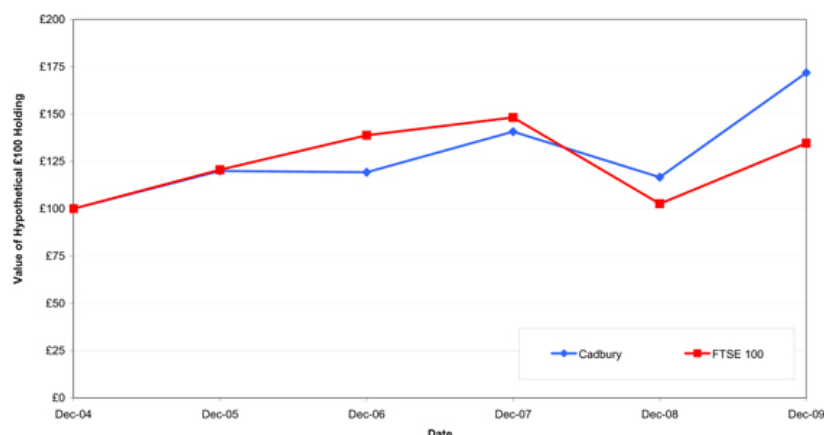
Source: Company Reports

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
Prepayments 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
Investments 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
Derivative liabilities	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 Expenses	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", Stanford 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 – Frederico Vieira

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.

At the time, Kraft was facing a series of challenges, including the need to strengthen its market position and address slowing growth in key regions. Cadbury, with its global recognition, established presence in emerging markets, and leadership in the confectionery sector, quickly became an intriguing target. However, the acquisition unfolded amid significant resistance, not only from Cadbury's management but also from the broader public, who viewed the transaction as a threat to a treasured British institution.

This case study explores the strategic dynamics at play during this pivotal acquisition. It examines the pressures and opportunities Kraft faced, the factors that made Cadbury an attractive target, and the broader implications of the deal for both companies and the industry. By analyzing the circumstances surrounding the acquisition, this study provides insights into the strategic decision-making processes that drive large-scale corporate transactions.

Learning Objectives

- Identify and evaluate the risks associated with Kraft's existing business model and explore strategic approaches to mitigate them.

- Compare Cadbury's performance with broader trends in the confectionery sector to assess its attractiveness as an acquisition target.
- Utilize tools such as SWOT analysis, financial performance analysis, and market trend evaluations to assess the viability of the acquisition.
- Reformulate financial statements and conduct financial statement analysis.
- Compute relevant ratios and evaluate companies through those ratios.

Target Audience

This case is designed for graduate-level students pursuing Master's or MBA programs in Business, Management, or Finance. It is particularly relevant for courses such as Strategy Management, Financial Statement Analysis and Mergers and Acquisitions. Students should possess a foundational understanding of strategy and finance concepts.

Teaching Plan

This case should be taught during a session of at least 90 minutes. It requires students to prepare by reading the case, answering the questions, and researching Kraft, Cadbury, and the M&A context. The session begins with a 30-minute introduction: a 10-minute instructor presentation on Kraft's business model, Cadbury's position, and global M&A trends, followed by a 20-minute discussion on Kraft's challenges, the rationale for the acquisition, and potential risks. The remaining 60 minutes focus on analysis, covering Kraft's risks, Cadbury's strategic value, industry performance comparisons, and financial health evaluation. The session concludes with a summary and actionable recommendations.

Assignment Questions

1. Considering Kraft's financial report, what risks are associated with Kraft's current business model, and how might they be addressed to enhance long-term success?

2. How would you classify the Confectionary market? Explain how acquiring Cadbury might help Kraft overcome the challenges referred to before and drive positive outcomes, and the strategy behind the interest in Cadbury?
3. How did the growth in the confectionery sector compare to Cadbury's performance? Conduct an analysis and discuss any conclusions.
4. Reformulate the financial statements. Based on the reformulated financial statements, evaluate the financial health of the companies. What are your conclusions?
5. What are the main conclusions and recommendations?

Analysis

Question 1) The global food and beverage industry is one of the largest and most dynamic sectors worldwide, generating trillions of dollars annually. As one of the leading players in this expansive market, Kraft Foods has established itself as a dominant force with a diverse portfolio that spans multiple key categories, including snacks, beverages, cheese, grocery, and convenient meals. In the previous years, Kraft has pursued an acquisition-led growth strategy, completing some important acquisitions within the food & beverage industry, enabling Kraft to reach a wide array of consumers across various geographic regions, through a wide mix of products, solidifying its place among the largest and most influential companies globally.

Despite revenue declines in 2009, Kraft demonstrated substantial growth over the preceding years, with revenues increasing by over 25%, overall from 2004, registering a compound annual growth rate (CAGR) of approximately 4.66%, with most of the growth being reflected in 2008, 16.9% from 2007. However, Kraft's operating margin exhibited an opposite trend, decreasing from 12.5% in 2004 to 9.2% in 2008. This trend reversed in 2009, when the operating margin rose to 13.7% (Appendix 1).

Despite its success, Kraft has faced challenges in emerging markets and Europe, especially regarding competition and profitability. In 2009, Kraft's operating margin in Europe was only 9%, significantly lower than the 17.3% margin in North America. This discrepancy represented challenges in attaining size and operating efficiency in the European market, where fierce competition from regional and local firms, coupled with shifting consumer preferences, posed obstacles. Similarly, in developing markets, while Kraft has been able to increase its operating margin from 8.9% in 2006 to 11.8% in 2009, it continued to struggle with the complexities of diverse market dynamics. Naturally, these challenges underscore the need for strategic adjustments to optimize performance across all regions (Appendix 2).

Kraft's heavy reliance on the North American market, which accounts for around 58.6% of its total net revenues, particularly in the Cheese, Grocery and Convenient Meals sectors (Appendix 3), exposes the company to significant macroeconomic risks. The 2008 market crash exposed the vulnerability of its premium or higher-priced products, such as the Cheese and Convenient meals segments to economic downturns. Moreover, Kraft faced some challenges from rising costs related to the food price crisis, which saw the wheat price, for example, increase by 127% from 2005 to 2008.

In Kraft's financial report of 2008, they approach the following concern:

“If we are unable to increase our business in emerging markets, our market share and profitability could be adversely affected.” However, the company also recognized the inherent challenges in these regions, including intense competition, volatility, and economic instability. In 2009, Kraft reiterated the urgency of expanding its operations in these markets to secure long-term growth.

As it can be seen, Kraft's segments distribution could result in some serious threats, with a strong reliance on the North American market and some debilities, both in volume and in profitability, in

the European Union and emerging markets. Considering this, they should prioritize diversifying their portfolio, since it could endanger their market share and financial success. Although emerging markets and Europe accounted for significant revenue growth between 2007 and 2009, 25.13% in Europe and 33.15% in emerging markets compared to just 3.44% in North America (Appendix 4), these regions remain underdeveloped compared to Kraft's core market.

Kraft has set some goals in their growth strategy, at the Consumer Analyst Group of New York Conference, for example, "Build a high performing organization", which includes maximizing their potential both in Europe and in Developing markets, and further build scale in those Markets by using business models relevant in individual geographies and countries. To expand its market share in Europe and Emerging Markets, Kraft is considering acquiring Cadbury, a company recognized for its strong presence in Europe and impressive performance in Emerging Markets. However, it is essential to conduct a thorough analysis of Cadbury's operations, market position, and potential synergies to determine whether proceeding with the takeover aligns with Kraft's strategic and financial goals.

The information exposed before evidence Kraft's high performance in the US, as a market leader, owning a wide product portfolio. There are some opportunities in the emerging markets, which offer great growth potential, and on product portfolio expansion, which could boost its market share. On the other hand, despite being a market leader in the US, it shows great dependence on it, evidencing weaker positions in Europe and emerging markets. Furthermore, Kraft should follow strategies to overcome challenges regarding increased competition, food safety standards, and global economic slowdown.

In summary, Kraft's business model has delivered substantial growth but faces notable risks tied to geographic concentration and evolving market dynamics. To enhance its long-term success,

Kraft must address regional challenges, diversify its revenue streams, and strengthen its position in emerging markets. Strategic acquisitions like Cadbury, if well-executed, could play a pivotal role in achieving these goals, allowing Kraft to capitalize on growth opportunities and secure its place as a global industry leader.

Question 2) As previously discussed, Kraft Foods faces significant challenges concerning the distribution of their revenues, since they show a great dependence on the North American Market. It is crucial to conduct external analysis, to better understand the sector in which Cadbury operates – Confectionary – which allows Kraft to identify potential risks and opportunities. The Bargaining Power of Buyers is High, as the confectionery industry usually sets as a high proportion of consumers general spending, and, buyers are usually more price sensitive to those (Porter, 2008). The Bargaining Power of Suppliers for Cadbury is moderate to high, as key commodities like cocoa, milk, and sugar directly affect costs and profitability. Cadbury manages this risk through commodity derivative contracts and sustainable farming initiatives like the "Cadbury Cocoa Partnership." The Rivalry Among Existing Competitors is high, since this is a market with big players, such as Nestlé, Mars, and Hershey dominating the market. The Threat of Substitute Products is high due to increasing health awareness, driving to the launch of new snacks, with healthier ingredients. The Threat of New Entry is low, as the confectionery market is dominated by established brands with strong distribution networks and capital. Overall, the confectionary industry stands as a moderately attractive market, with opportunities to innovate, despite its fierce competition. However, for established companies, like Cadbury, there are growth opportunities (Appendix 5).

To understand if the acquisition of Cadbury would be the right step to lower their exposition, and to expand their operations, the first step should be analyzing Cadbury's revenues and operating income distribution by geography, as well as for the operating margin across key segments.

Operating in the confectionary industry, Cadbury was striving to become the world's leading company in this sector. With a wide portfolio of strong brands, they were in 2008 the second biggest confectionary company globally by revenue, generating £5,384 million. Its revenue distribution demonstrates that the European Market¹ was the largest contributor, representing 46.1%. Additionally, Cadbury exhibits a great presence in the Developing Markets, which account for 39.4% of its revenues. Furthermore, Cadbury demonstrates higher operating margins across most regions, achieving 12.1% in Europe and 15.5% in Developing Markets, outperforming Kraft's margins of 9% and 11.8%, respectively. In addition, Cadbury's operating income relies less on the American Market, accounting for 31.3% of their operating income, against the 70.4% of Kraft Foods (Appendix 6).

Cadbury shows an advantage over their competitors in terms of market share in the Developing Markets, which, although very fragmented, offer great opportunities for investments, showing potential for continued growth and high returns. Cadbury has successfully captured significant market share in these regions, demonstrating its ability to navigate complex market dynamics. Similarly, in Europe, where Kraft has faced challenges, Cadbury's strong position provides a strategic opportunity. With a dominant market share in key segments, Cadbury offers Kraft the chance to enhance its competitive standing and overcome major rivals such as Nestlé and Mars. In the global confectionary market, Cadbury was positioned as the second largest confectionary company with a total of 10.5% of market share, in 2009 (Cadbury's Financial Report, 2009).

¹ The European Market regarding Cadbury's operations includes Europe plus Britain and Ireland.

Despite the recessionary pressures that affected many companies in the confectionery industry, Cadbury maintained positive results in 2008 and continued to grow. This resilience highlights the strength of Cadbury's business model and its ability to weather economic challenges—a key factor that likely influenced Kraft's interest in pursuing the takeover.

The acquisition aligns with a corporate-level strategy of geographic diversification, allowing Kraft to strengthen its strategic positioning, especially in markets where it has been underperforming. Cadbury's profitability and operational strength are further supported by the fact that it demonstrates higher operating margins. By acquiring Cadbury, Kraft Foods could leverage Cadbury's strong brand reputation and its leadership in the chocolate segment, while also expanding into new markets. Additionally, Kraft could benefit from valuable synergies in several areas. First, on revenue-enhancing synergies, from potential cross-selling opportunities, and from the large presence of Cadbury in emerging markets, while Cadbury would benefit from Kraft's distribution channels, particularly in the North American market, boosting its market share. Second, synergies related to costs, which could be realized in distribution, marketing and R&D, by combining their distribution networks and leverage shared resources. Third, potential synergies related to capital structure changes, due to increased debt capacity.

In other hand, it was identified some weaknesses regarding Cadbury's operations, about which Kraft needs to be aware of. First, due to some regulations, Cadbury is not able to produce and sell the same chocolate from the other markets in the USA, which is the most famous receipt, and a traditional product. Second, the numerous cases of products being recalled due to the presence of ingredients not listed on the label, and by contamination, for example, which clearly highlights a lack of quality control.

Considering the potential benefits and challenges, the takeover appears to be a good move for Kraft to expand its presence in the market. However, it is essential to analyze additional factors to understand how the company has been evolving, as well as the market and the industry they operate in, to fully assess the long-term success of the takeover.

Question 3) Before determining whether to acquire Cadbury, it is crucial to analyze the performance of both the industry and the company, as well as their prospects.

Cadbury operates within the Food & Beverage industry, specifically in the Confectionary sector. In 2008, the Food & Beverages industry was valued at \$5.7 trillion. However, the major companies operating in this sector – e.g. Nestle, Kraft Foods - account for only 5% of the overall value, with the biggest share being in Europe, generating \$1.4 trillion in 2007, with the Emerging Markets – e.g. China and India - growing and going up on the list of revenue generators of the industry.

The confectionary market is the fourth largest segment of the packaged foods, registering over \$150 billion, according to Cadbury's financial report. It is composed of 3 categories – Chocolate, Gum and Candy – in which the Chocolate represents the biggest segment, 55% share of the Market retail sales, followed by Candy, representing 31%, and finally Gum with 14% of the market. The market has been growing steadily between 2003 and 2008, at a CAGR of 5%, with developing countries experiencing a higher CAGR of around 9%. Both the chocolate and gum segments outperformed the total market, growing at around 6% and 7% per year, respectively, while candy grew below the average (4% per year) (Exhibit 4).

Cadbury's revenues have mirrored the high growth rate of the confectionary market, growing by 14% (including the impact of exchange rate movements) in 2008, considering the split done between the beverage and the confectionary segments of the company in 2007. In 2009 their

revenues maintained a positive trend, with a slight slowdown, increasing by 11%. From 2006 to 2009, its revenues went up by 33.2%, while operating income grew by approximately 54%.

Cadbury's Net Income more than doubled during this period, increasing from £176 million in 2006 to £370 million in 2008. This substantial growth was partly driven by deferred taxes overseas, which contributed £192 million in 2008, while in 2006 amounted for -£2 million. However, net income declined to £275 million in 2009 due to variations in deferred taxes (Appendix 7).

In terms of market share, Cadbury achieved a 2% increase between 2004 and 2008, reaching 10.5% market share of the confectionary market. This growth was driven by strategic investments in high-growth areas, particularly emerging markets and the gum segment, as well as through smaller acquisitions, as noted in their 2008 financial report (Exhibit 17).

Kraft could benefit from the expansion of their operations into the confectionary market, by acquiring Cadbury. Not only did the confectionary grow in the last years and shows evidence for continued growth, but also Cadbury managed to outpace their market, by their strategic stance in emerging economies and the high-growth gum area. Additionally, Cadbury's performance has been robust even during challenging economic periods. For example, a comparison with the FTSE 100 index, as highlighted in Cadbury's 2009 financial report, shows that an investment of £100 in Cadbury between 2004 and 2009 would have yielded a 75% return, substantially higher than the average market performance during this period, which included the global financial crisis (Exhibit 20).

Question 4) Building on the prior analysis, it is critical to complement this with indirect analysis techniques by evaluating the companies using key financial ratios. Examining financial statements provides insights into financial health, the capacity to overcome challenges and the level of risk associated with the company. This evaluation focuses on three key areas: Cash Flow

Management (Activity Ratios), Liquidity (Liquidity Ratios), and Capital Structure. A comparison with industry peers, such as Nestlé, offers a benchmark to contextualize Kraft's and Cadbury's performance and financial standing. Nestlé is an ideal reference for comparing the financial health of Kraft and Cadbury due to its position as a global leader in the food and beverage industry. Nestlé, one of the biggest and most varied businesses in the industry, sets the standard for innovation, financial stability, and operational effectiveness. It is a trustworthy benchmark for comparison because of its broad range of products in several categories, and good profitability and risk management procedures.

Activity Ratios, such as the Cash Conversion Cycle (CCC), measure how efficiently a company manages cash flow, specifically how quickly it converts cash outflows into inflows. Companies with greater operational efficiency typically have shorter cycles, indicating better cash management. In 2009, Kraft's CCC was 49 days, reflecting a shorter cycle comparing to 2007 of 53 days, but reflecting an increase of 5 days from 2008. It is evident that Kraft has a big disadvantage compared to Nestle, as it manages to generate cash from their operations 1 day before paying to their suppliers, on average. This happens mainly due to the huge difference in the Average Payable Period of 105 days, compared to Kraft's 55 days. Cadbury outperforms both Kraft and Nestlé with a CCC of -35 days in 2009, primarily due to its remarkably long Average Payable Period of 179 days. This enables Cadbury to retain cash longer before making payments, despite a longer Average Collection Period of 60 days (Appendix 8, 9 and 10).

Cadbury's superior CCC highlights operational efficiency and strong supplier relationships, which Kraft could leverage through acquisition. Integrating Cadbury's cash management practices could improve Kraft's working capital flexibility, enhance cash flow, and strengthen its competitive

position. Additionally, Cadbury's supplier leverage offers Kraft an opportunity to renegotiate terms and align its payable structure more closely with industry leaders like Nestlé.

Moving on to the Liquidity Ratios, Kraft's Current Ratio improved to 1.08 in 2008, reflecting its ability to cover short-term liabilities with current assets. However, excluding inventories, Kraft's Quick Ratio drops to 0.90, indicating reliance on inventory liquidity. Kraft's Cash Ratio improved to 0.18, reflecting a slight increase in available cash for short-term debt coverage. Nestlé's liquidity ratios are comparable to Kraft's, but its Cash Ratio decreased to 0.15 in 2009, indicating a marginally lower ability to cover short-term obligations with cash. Cadbury's liquidity position is weaker, with a Current Ratio of 0.87 in 2009, signaling insufficient current assets to cover liabilities. Its reliance on inventory further increases risk, as inventories may not be easily convertible to cash. Cadbury's Cash Ratio is only 0.11, limiting its ability to manage immediate obligations (Appendix 11, 12 and 13).

Despite these weaknesses, Cadbury's liquidity challenges do not appear to pose a significant threat to Kraft's financial health in the event of an acquisition. While Cadbury lacks any liquidity advantages, the overall impact on Kraft's liquidity position is unlikely to worsen significantly, especially given Kraft's healthier cash and short-term asset management.

The Capital Structure tells us how the company is financing their operations and growth, essentially comparing their debt and equity. This information is useful for investors and analysts to evaluate and understand their financial health, as well as their reliance on borrowed funds to operate. For this section, the values used are according to the reformulated income statement and balance sheet of the companies, split between the Core Business, Non-Core Business and Financing, and so the values may vary from the same metrics in the case (Appendix 14, 15, 16, 17, 18 and 19). Starting by the Gearing Ratio, it shows that around 51% of their invested capital comes

from borrowed funds. Moreover, for each unit of equity used by Kraft, they use 1.06 units of debt, which can consist of a concerning point for them, and based on the Solvency Ratio, Kraft is not able to meet more than 64% of their obligations with the money invested in the company. By looking at the analyses, it is clear that Kraft shows a high dependence on debt, which creates some concerns about their financial health, increasing their risk of bankruptcy, but, once again, it is crucial to compare with some players of the same industry. Looking at Nestle's Capital Structure, it shows that their debt constitutes only 30% of their invested capital, and that for each unit invested in the company (Equity), they have 0.43 units of debt, a better rate than Kraft. Additionally, Nestle has the capacity to meet all their obligations with the money invested in the company, with a Solvency Ratio of 0.97 in 2009. Finally, Cadbury shows a lower dependence on debt in terms of operations, with a Gearing Ratio of 0.36, reflecting a decrease since 2006. Between the same period, they managed to lower the leverage of the business, from 1.05 units of debt for each unit of equity, to 0.56, resulting in a larger portion of equity financing their business structure in 2009. Cadbury shows greater financial stability, compared with Kraft, indicating a less risky capital structure, with a solvency ratio of 0.76 (Appendix 20, 21 and 22).

The acquisition presents both opportunities and risks. While Cadbury's operational strengths and market position could enhance Kraft's financial health in the long term, the immediate challenges, particularly the debt burden, require careful consideration. Kraft must weigh the strategic benefits against the financial risks, ensuring robust integration planning and leveraging Cadbury's best practices to mitigate potential downsides.

Question 5) Kraft was, at that time, one of the biggest companies operating in the food & beverage industry, and it has been experiencing high levels of growth since 2004. However, Kraft was still

facing some challenges regarding market expansion, and it was very dependent on the North American Market and difficulties in achieving broader market expansion.

The proposed acquisition aligns with its growth strategy and offers a range of strategic benefits. The deal would allow Kraft to diversify its portfolio, and expand its markets, particularly in the emerging markets, such as, Brazil and India, reducing its dependency on the North American market. The British company, with its steady growth since 2004, outpacing the confectionary market, and strong position in the confectionary sector, achieving 10.5% in 2009, offers Kraft access to a high growing market with positive prospects for the future. Additionally, Cadbury offers a significant edge in terms of generating cash from their operations, particularly regarding the payable period to their suppliers, and finally, Kraft may benefit from the strategies that Cadbury have been implementing to rebalance their capital structure and improve its financial stability.

However, Kraft must address several challenges to ensure long-term success. Given Kraft's historically high levels of debt, it is crucial to maintain a manageable debt load. Overleveraging to finance the acquisition could pose significant financial risks. In the future, post-acquisition, to maximize the benefits of the acquisition, Kraft should focus on smooth integration with Cadbury. Drawing on its experience from previous acquisitions, Kraft must ensure operational continuity, cultural alignment, and the effective realization of identified synergies. Furthermore, Kraft must prioritize growth in emerging markets, leveraging Cadbury's established presence and expertise in these regions to drive sustainable revenue growth.

References

- Dunsmore, Marcus, and Helen Harrison. "Kraft Foods & Cadbury: The Merger" Accessed November 16, 2024. <https://www.ssonetwork.com/business-process-outsourcing/articles/kraft-foods-cadbury-the-merger>
- Dyer, Jeffrey H., Kale, Prashant, and Singh, Harbir. 2004. "When to Ally and When to Acquire" Harvard Business Review (July-August).
<https://hbr.org/2004/07/when-to-ally-and-when-to-acquire>
- Ribeiro, Sara de Paula. 2013. "Mergers and Acquisitions: The case of Kraft Foods and Cadbury" Master's thesis, Católica Lisbon School of Business and Economics.
<https://repositorio.ucp.pt/bitstream/10400.14/16780/1/201091267.pdf>
- Mathur, Manan (Manan Mathur, MBA, Ing.) "Reasons for Kraft to acquire Cadbury and factors which drove the acquisition Premium for a USD 19.5 Billion worth Deal in 2010." LinkedIn. May 20th, 2020. <https://www.linkedin.com/pulse/reasons-kraft-acquire-cadbury-factors-which-drove-premium-mathur/>
- Moeller, Scott. 2012. "Case study: Kraft's takeover of Cadbury" Financial Times (January 9).
<https://www.ft.com/content/1cb06d30-332f-11e1-a51e-00144feabdc0>
- Olson, Parmy. 2009. "Kraft Makes Its Move On Cadbury" (November 9th).
<https://www.forbes.com/2009/11/09/cadbury-kraft-takeover-markets-equities-offer-deal.html>
- Rosenfeld, Irene 2016. "Inside the Kraft Foods Transformation" Strategy+Business. Accessed November 16, 2024. <https://www.strategy-business.com/article/09307>.
- UKEssays. 2018. "Analysis of Kraft's Takeover of Cadbury." (November).
<https://www.ukessays.com/essays/marketing/takeover-of-cadbury.php?vref=1>

UKEssays 2018. "Cadbury: Porter's Five Forces, and PESTEL Analysis. " (November).

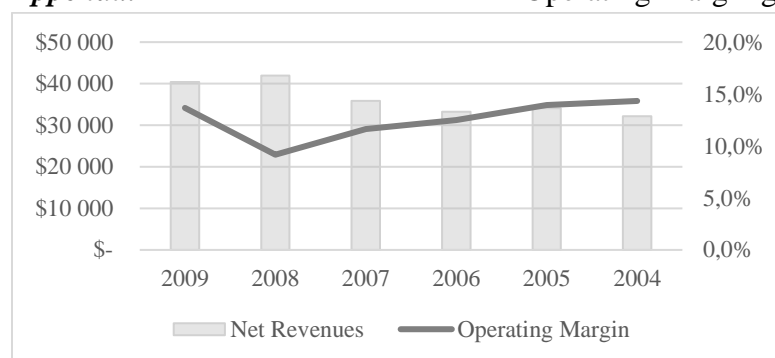
<https://www.ukessays.com/essays/marketing/competitive-environment-between-pestel-and-five-forces-in-marketing-marketing-essay.php?vref=1>

Appendix list

<i>Appendix 1 – Kraft’s Net revenues and Operating Margin growth</i>	51
<i>Appendix 2 – Kraft’s Operating Margin per Geography</i>	51
<i>Appendix 3 – Kraft’s revenues by segment and geography (2009)</i>	51
<i>Appendix 4 – Kraft’s revenue growth by segment and geography variation (2007-2009)</i>	51
<i>Appendix 5 – Five Forces of Porter Framework for Confectionary Industry</i>	52
<i>Appendix 6 – Cadbury’s results per Geography</i>	52
<i>Appendix 7 – Cadbury’s results per year (2006-2008)</i>	52
<i>Appendix 8 – Activity Ratios (Kraft Foods)</i>	53
<i>Appendix 9 – Activity Ratios (Cadbury)</i>	53
<i>Appendix 10 – Activity Ratios (Nestlé)</i>	53
<i>Appendix 11 – Liquidity Ratios (Kraft Foods)</i>	53
<i>Appendix 12 – Liquidity Ratios (Cadbury)</i>	53
<i>Appendix 13 – Liquidity Ratios (Nestlé)</i>	53
<i>Appendix 14 – Reformulated Income Statement (Kraft Foods)</i>	54
<i>Appendix 15 – Reformulated Balance Sheet (Kraft Foods)</i>	55
<i>Appendix 16 – Reformulated Income Statement (Cadbury)</i>	56
<i>Appendix 17 – Reformulated Balance Sheet (Cadbury)</i>	57
<i>Appendix 18 – Reformulated Income Statement (Nestlé)</i>	58
<i>Appendix 19 – Reformulated Balance Sheet (Nestlé)</i>	59
<i>Appendix 20 – Capital Structure Ratios (Kraft Foods)</i>	60
<i>Appendix 21 – Capital Structure Ratios (Cadbury)</i>	60
<i>Appendix 22 – Capital Structure Ratios (Nestlé)</i>	60

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%

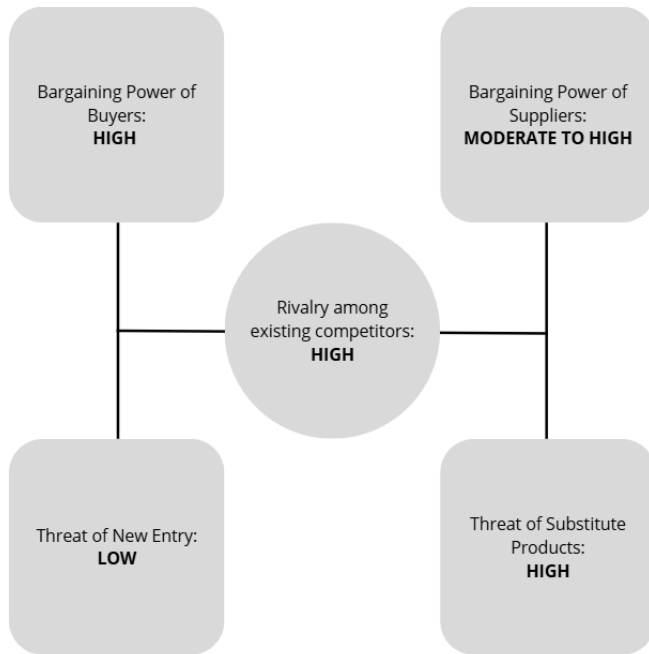
Appendix 3 – Kraft's revenues by segment and geography (2009)

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%

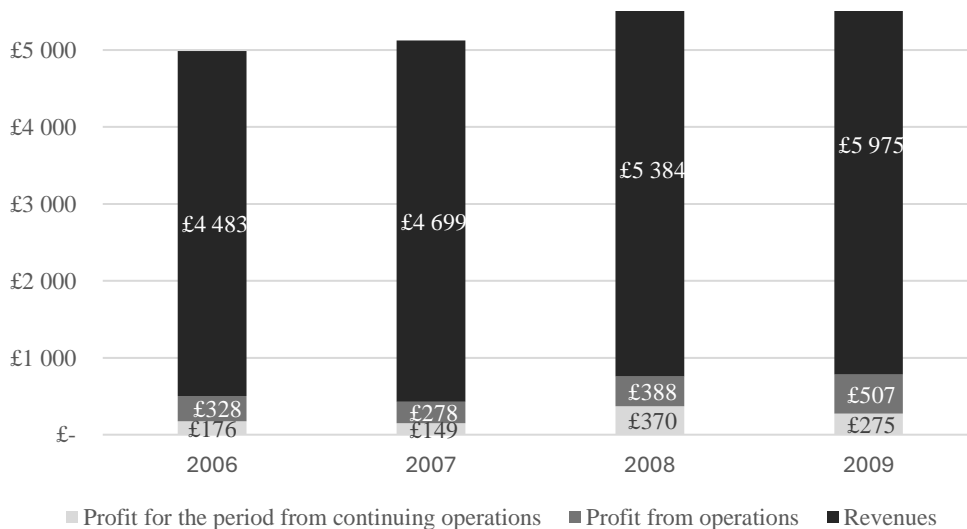
Appendix 5 – Five Forces of Porter Framework for Confectionary



Appendix 6 – Cadbury’s results per Geography

	Total	Europe	Britain and Ireland	BIMA	Middle East and Africa	Americas	North America	South America	Asia	Pacific	Central
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%			

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 discontinu	\$ -	\$ 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 liabilities	\$ 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 c	\$ 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
Retirement 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
Retirement 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 Expenses	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
Prepayments 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
Investments 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
Derivative liabilities	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

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.

Bibliography

Amir, Eli, and Marco Ghitti. *Financial Analysis of Mergers and Acquisitions*. 2020.

<https://doi.org/10.1007/978-3-030-61769-1>

Ashburn, Doug. (2024). "Kraft Foods" December.

<https://www.britannica.com/money/Kraft-Foods-Inc>

Attrac Staff. 2024. "Definitive Guide to Consumer Packaged Goods (CPG) Industry: Key Segments, Trends & Leading Brands." *Attrac*, February 1, 2024.

<https://www.attrac.io/blog/guide-to-consumer-packaged-goods-cpg-industry-key-segments-trends-leading-brands>.

BBC News. "Cadbury's Takeover by Kraft: A Timeline." *BBC News*, January 27, 2010.

<http://news.bbc.co.uk/2/hi/business/8492956.stm>.

BBC News. "Kraft Foods to Close Key Cadbury Plant in UK." *BBC News*, January 26, 2010.

http://news.bbc.co.uk/2/hi/uk_news/england/west_midlands/8491601.stm.

BBC News. "Kraft-Cadbury Deal: Final Details and Impact." *BBC News*, February 8, 2010.

<https://www.bbc.com/news/business-12427830>.

BBC News. "Kraft Foods Confirms Major Operational Changes." *BBC News*, May 2, 2014.

<https://www.bbc.com/news/business-27258143>.

Cadbury. 2024. "Our Story." Cadbury UK.

<https://www.cadbury.co.uk/about/history/our-story/>.

Danone. 2008. Investor Presentation: Dresdner Kleinwort Consumer Staples Conference. Paris:

Danone. https://www.danone.com/content/dam/corp/global/danonecom/investors/en-investor-conferences/2008/dresdner-kleinwort-consumer-staples-conference/030408_Danone_DK_presentation.pdf.

Evening Standard. "Takeover Debt Risk Cuts Kraft and Cadbury Credit Ratings." *Evening Standard*, January 20, 2010. <https://www.standard.co.uk/business/takeover-debt-risk-cuts-kraft-and-cadbury-credit-ratings-6727006.html>.

Fitch Ratings. "Fitch Downgrades Kraft Ratings to BBB/F3 on Cadbury Revised Offer." *Fitch Ratings*, January 20, 2010. <https://www.fitchratings.com/research/corporate-finance/fitch-downgrades-kraft-ratings-to-bbb-f3-on-cadbury-revised-offer-20-01-2010>.

Financial Times. "Cadbury's Acquisition: Key Lessons and Impacts." *Financial Times*, December 30, 2011. <https://www.ft.com/content/1cb06d30-332f-11e1-a51e-00144feabdc0>.

Financial Times. "Kraft's Cadbury Bid in Timeline." *Financial Times*, September 16, 2009. <https://www.ft.com/content/54998c2e-a23e-11de-9caa-00144feabdc0>.

Fortune. 1989. "The Nestle-Ralston Purina Deal: Chocolate Meets Dog Food." CNN Money. January 16, 1989. https://money.cnn.com/magazines/fortune/fortune_archive/1989/01/16/71522/index.htm.

Gillette. 2005. 2004 Annual Report: Form 10-K. SEC Filing, Exhibit 13. Washington, DC: U.S. Securities and Exchange Commission. https://sec.gov/Archives/edgar/data/41499/000114544305000507/d16016_ex13.htm.

Kraft Foods. 2009. Announcement of Cadbury Offer. SEC Filing, Exhibit 99.1. Washington, DC: U.S. Securities and Exchange Commission. <https://www.sec.gov/Archives/edgar/data/744473/000115697309000187/u06102exv99w1.htm#105>.

Kraft Foods. 2009. *Announcement of Offer for Cadbury Plc.* SEC Archives, September 7, 2009. <https://www.sec.gov/Archives/edgar/data/744473/000119312509188016/dex991.htm>.

Kraft Foods. 2010. Kraft Foods' Final Offer for Cadbury Plc. SEC Filing, Exhibit 99.1. Washington, DC: U.S. Securities and Exchange Commission. <https://www.sec.gov/Archives/edgar/data/744473/000119312510084900/dex991.htm>.

Kraft Heinz. 2024 "Beloved Global Brands" Brands. Accessed November 16. <https://www.kraftheinzcompany.com/brands.html>.

Mcclay, Rebecca. 2024. "The History Behind Kraft Heinz Co." October. <https://www.investopedia.com/news/history-behind-kraft-heinz-co/>.

"Numico. 2006. Annual Report 2006. Amsterdam: Numico. https://media.corporate-ir.net/media_files/irol/95/95168/Numico/AR_2006.pdf.

Ovide, Shira. 2011. "The Long, Strange History of Kraft Foods" August 4. <https://www.wsj.com/articles/BL-DLB-34227>.

Procter & Gamble. 2005. Registration Statement on Form S-4: Procter & Gamble and Gillette Merger. SEC Filing, Form S-4/A. Washington, DC: U.S. Securities and Exchange Commission. <https://www.sec.gov/Archives/edgar/data/80424/000095012305006039/y06542a2sv4za.htm>.

Reuters. "S&P Cuts Kraft; Moody's Takes Off Downgrade Watch." *Reuters*, February 2, 2010. <https://www.reuters.com/article/markets/commodities/sp-cuts-kraft-moodys-takes-off-downgrade-watch-idUSN02116974/>.

Reuters. "Timeline: Kraft Agrees Cadbury Deal After 4-Month Fight." *Reuters*, January 19, 2010. <https://www.reuters.com/article/markets/stocks/timeline-kraft-agrees-cadbury-deal-after-4-month-fight-idUSTRE60I3DI/>.

The Guardian, "Cadbury Timeline: The Takeover of a British Icon by Kraft," *The Guardian*, January 19, 2010, <https://www.theguardian.com/business/2010/jan/19/cadbury-kraft-takeover-timeline>.

U.S. Securities and Exchange Commission. *Kraft Foods Inc. Acquisition Filing for Cadbury Plc.* February 5, 2010.
<https://www.sec.gov/Archives/edgar/data/1103982/000119312510022303/d424b3.htm>.

U.S. Securities and Exchange Commission. *Kraft Foods Inc. Financial Filing.* SEC Archives, June 2, 2010.
<https://www.sec.gov/Archives/edgar/data/1103982/000119312510248086/dex991.htm>.

U.S. Securities and Exchange Commission. *Kraft Foods Inc. Acquisition Filing for Cadbury Plc.* SEC Archives, February 5, 2010.
<https://www.sec.gov/Archives/edgar/data/1103982/000119312510022303/d424b3.htm>.

Washington Post. 2000. "Investors Applaud Kraft-Nabisco Deal." *The Washington Post*, June 27, 2000. <https://www.washingtonpost.com/archive/business/2000/06/27/investors-applaud-kraft-nabisco-deal/1259cf56-9c83-4475-8124-592c4448d49e/>.