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The Cadbury Takeover: An Analysis of Kraft Foods' Capital Structure Decisions

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Abstract

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

Keywords

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

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Group Part

1 Introducing the Cadbury Takeover

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

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

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

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

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

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

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

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

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

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

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

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

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

Recurrent M&A deals in the industry

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

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

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

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

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

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

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

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

3 The Rise of Kraft Foods

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

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

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

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

In 1980, Kraft merged with Dart Industries, Inc., a company specializing in batteries, plastics, and household appliances. This merger marked Kraft's foray into diversified industries, an expansion strategy that widened its portfolio. However, the company's most significant transformation occurred in 1988, when Kraft was acquired by Phillip Morris Companies (now Altria Group) for \$13.1 billion—a record-breaking \$106 per share at the time. This acquisition was the largest merger in the food industry and underscored Phillip Morris's intent to diversify beyond the tobacco sector. To streamline operations, Phillip Morris combined Kraft with its earlier acquisition, General Foods, forming Kraft General Foods, Inc., a formidable entity in the global food market. Kraft's accelerated rhythm of acquisitions continued into the early 2000s. In 2000, Phillip Morris further strengthened Kraft's market position by acquiring Nabisco Holdings and merging it with Kraft. This move consolidated Kraft's leadership in the food industry but also brought challenges, such as concerns about rising debt levels to finance these deals and the potential for job losses amid restructuring efforts.

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

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

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

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

4 Sweet Success: The Cadbury Journey

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

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

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

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

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

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

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

Cadbury as a market player

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 The Fight to Protect Cadbury's Legacy

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

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

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

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

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

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Exhibits

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

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

Source: McKinsey analysis; S%P Capital IQ

Exhibit 2 – Share price volatility in M&A Transactions

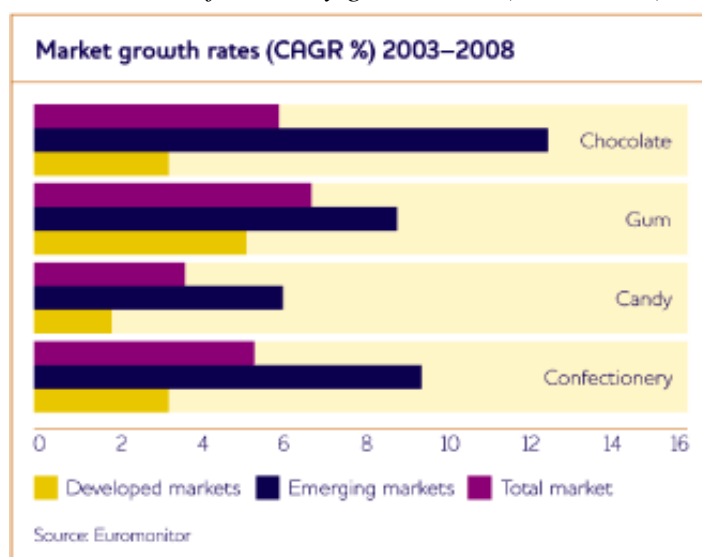
Announcement Date	Acquisition Completion Date	Target Name	Acquirer Name	Announced Total Value	Share Price 1-Month Before Acquisition	Share-Price 1-Month Post-Acquisition
June 6, 2000	October 4, 2000	Bestfoods	Unilever	\$20.3 billion	\$15.26	\$17.83
January 16, 2001	December 12, 2001	Ralston Purina	Nestlé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

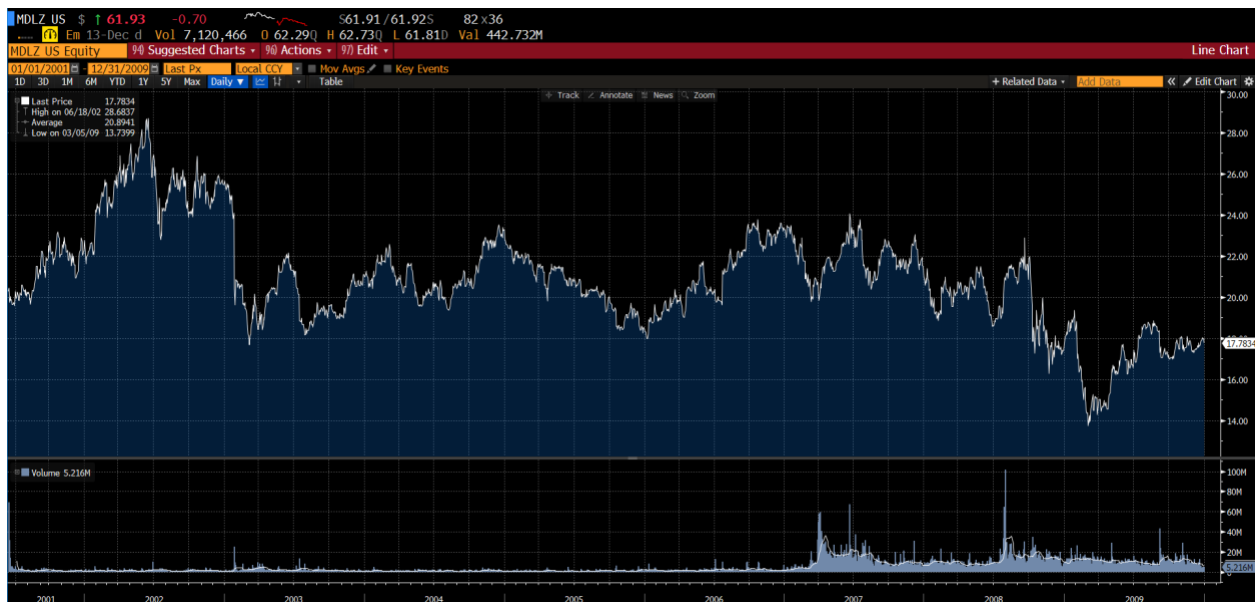
Source: Company Reports

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

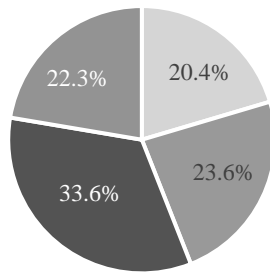
Source: 2009 Cadbury Annual Report

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

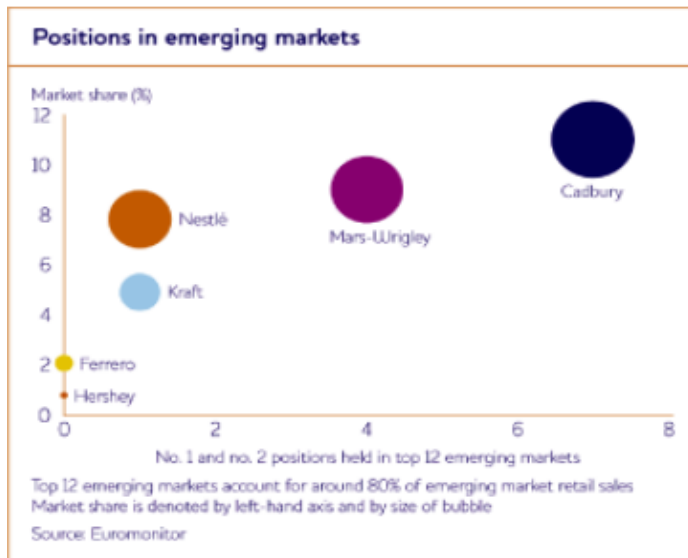
Source: Own Representation

Exhibit 17– Cadbury’s global confectionery market share



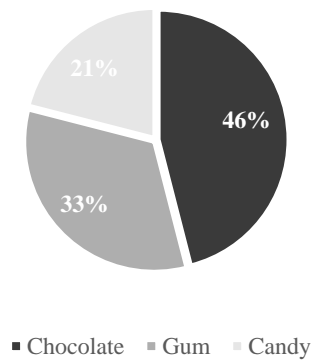
Source: Company Reports

Exhibit 18 – Cadbury’s Market Share in Emerging Markets



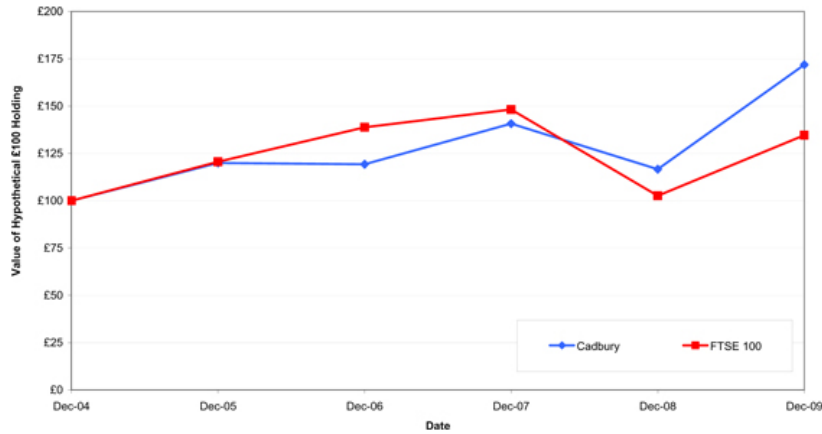
Source: Company Reports

Exhibit 19 – Cadbury Sales per Segment



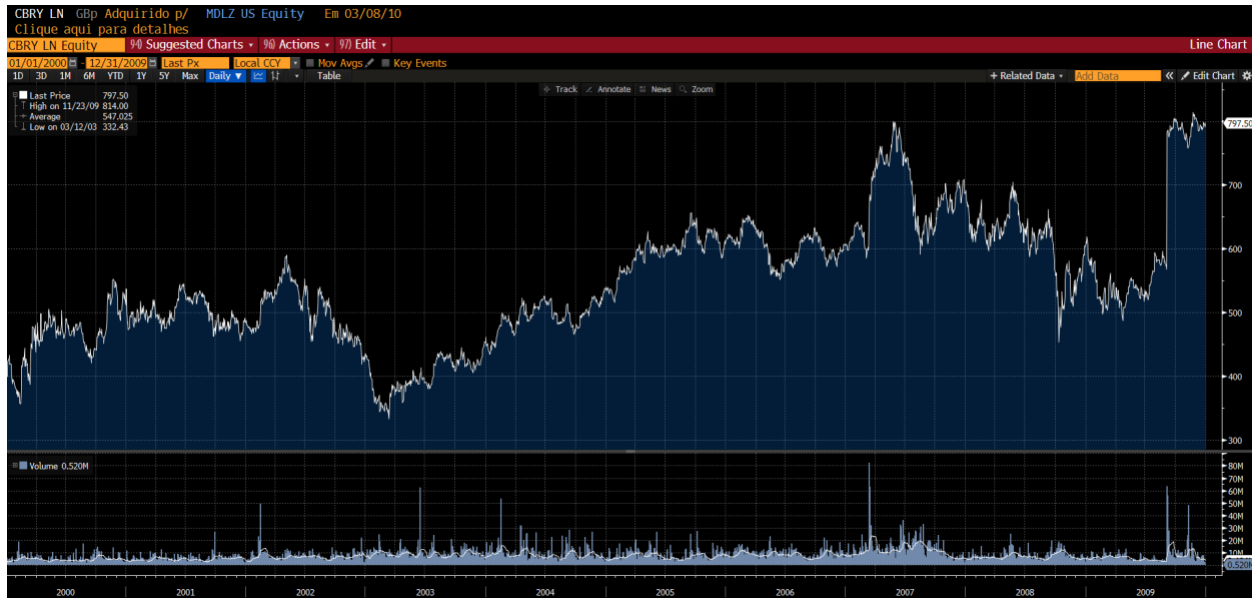
Source: Own Representation

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 – Inês Ventura

Case Synopsis

In 2010, Kraft Foods, a global leader in the food and beverage industry, executed a high-profile hostile takeover of Cadbury, a British confectionery company renowned for its rich history and global brand recognition. The \$19.6 billion deal marked one of the most significant transactions in the consumer-packaged goods sector, showcasing the intricate interplay between strategic growth aspirations, financial structuring, and cross-border corporate dynamics.

The transaction unfolded in the context of a heated bidding process, with Kraft seeking to expand its product portfolio and strengthen its market presence in emerging markets where Cadbury had a stronghold. However, this ambition came at a cost: the transaction was financed through a blend of 60% cash and 40% stock, necessitating substantial debt and stock issuance and raising questions about Kraft's financial stability and capital structure post-acquisition.

The case is situated in the broader narrative of the global consumer goods industry, where mergers and acquisitions have long been a tool for consolidation and competitive positioning. Kraft's acquisition of Cadbury epitomized this trend but also highlighted the financial and operational challenges associated with hostile takeovers, especially in navigating cultural integration, stakeholder management, and creditworthiness.

Learning Objectives

This case provides a comprehensive analysis of Kraft Foods' capital structure decisions and structure of payment for the Cadbury acquisition. The objectives of the case study include:

- Examining the financing strategy employed by Kraft, including the impact of debt and new shares issuance on the company's capital structure and financial stability.

- Evaluating the implications of the mixed-payment structure on risk sharing between Kraft and Cadbury shareholders.
- Analyzing the role of credit ratings and financial metrics in shaping post-acquisition risks and opportunities.
- Applying capital structure theories a real-world M&A scenario.

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 Corporate Finance and Mergers and Acquisitions. In order to solve it students should possess a foundational understanding of corporate finance concepts.

Teaching Plan

This case should be taught during a session of at least 90 minutes. Students should prepare beforehand, by reading the case, answering the provided assignment questions, and researching Kraft Foods, Cadbury, and the global M&A context at the time.

The session should begin with a 30-minute summary and discussion, where the instructor provides an overview of the deal with the key findings being discussed by students. Then, the following 60 minutes should be dedicated to a strategic and quantitative analysis of the case.

Assignment Questions

1. How did Kraft's capital structure and choice of financing for the Cadbury acquisition impact its financial stability and ability to complete the hostile takeover?
2. How did the payment structure used in the acquisition affect the distribution of risks and responsibilities between Kraft and Cadbury's shareholders? How did this combination influence the financial strain on Kraft compared to a purely cash or purely stock transaction?

3. Examine Kraft's cost of capital before and after the acquisition of Cadbury, considering the impact of new debt and shares issuance on its capital structure.

Analysis

Question 1) In mergers and acquisitions (M&A), the choice of financing is a determinant factor of a transaction's success, particularly in the context of hostile takeovers. Financing strategies can greatly shape how risks are shared between the parties, as well as the long-term performance of the merged entity and the overall success of the acquisition (Sudarsanam, 2003). As such, companies intending to grow through acquisitions must thoughtfully evaluate the impact of their financing approach on their overall financial structure. The choice of financing using debt, equity, or a combination of both influences the acquirer's leverage, cost of capital, and market perception. Bruner (2004) asserts that the configuration of the financing structure has significant implications on the acquirer's capacity to navigate the challenges of a hostile takeover, where heightened resistance from the target company, intense negotiations, and deal execution poses greater challenges.

Fischer (2017) found that an acquirer's attributes, such as cash reserves and leverage, have a substantial impact on the financing strategy employed in mergers and acquisitions. In addition, Faccio and Masulis (2005) studies state that bidder's size might also be influential when making financing choices. Larger firms tend to be more diversified and thus, their proportional expected bankruptcy costs are lower. They also incur lower flotation costs and often have better access to debt markets, making debt financing more readily available.

Kraft's acquisition of the British confectionary Cadbury in 2010, at £11.9 billion (\$19.6 billion), exemplifies how these dynamics unfold.

Before delving into the financing structure of the takeover, it is essential to examine the Kraft's financial position pre-acquisition. By the end of the year 2009, Kraft registered a debt-to-equity ratio of 75.6% before the transaction, with debt's book value totaling to \$18.9 billion and equity's book value being at \$25 billion (Exhibit 5), hinting a very significant level of leverage but a still balanced capital structure. In addition, it registered a debt-to-value ratio of 29.7%, with a market capitalization of \$40 billion and an enterprise value amounting to \$57 billion (Appendix 1). It is also relevant to note that Kraft Foods' credit rating from Moody's was Baa2, which falls within the investment-grade category. This rating indicates moderate credit risk and reflects a stable ability to meet financial obligations, though not as robust as higher ratings such as A or Aa. Nonetheless, when compared to the S&P Food & Beverage Industry Index, where the average total debt-to-equity ratio for 2009 was 87.8%, Kraft's 75.6% ratio suggests a more conservative leverage position relative to its industry peers. This highlights that, despite its high leverage, Kraft remained below the industry average.

However, Kraft's pre-acquisition resources were insufficient to fully fund the acquisition. With only \$2.1 billion in cash reserves and 76 million treasury shares at the end of 2009, Kraft required significant external financing to meet the deal's requirements.

To fund the cash portion Kraft Foods issued \$9.5 billion in new debt, which would drive Kraft's overall debt level to over \$28 billion. This increase most likely resulted in a notably higher leverage profile.

Opting to use debt to fund a major portion of the acquisition aligns with Modigliani and Miller's (1963) theory that debt can be beneficial to a company's capital structure as interest payments provide a tax shield. The interest tax shield was an essential consideration for Kraft since the business could deduct the interest payments on its new loan, reducing its overall taxable income.

This tax advantage helped to reduce the company's weighted average cost of capital (WACC) post-acquisition, as analyzed in more detail in question 3, making the acquisition more financially feasible.

On the other hand, Kraft would still need to generate enough cash flow to cover both the interest payments and eventual debt repayments, reflecting the trade-off between the benefits of the tax shield and the risks associated with high leverage. Additionally, the increase in debt also raised the company's interest burden, causing a stronger dependence on successful post-acquisition cash flow to meet these obligations. If Cadbury's integration did not produce the expected synergies, this additional debt could pose significant financial challenges, as described by Jensen & Meckling (1976), who highlighted the risk of debt-driven agency costs, where managers may be forced to make short-term decisions to service debt rather than focusing on long-term growth.

According to the Trade-Off Theory (Kraus & Litzenberger, 1973), firms must balance the tax benefits of debt against the costs of financial distress. Kraft's decision to increase its leverage introduced a higher level of risk, particularly if synergies from the acquisition did not materialize as expected. High debt levels increase a company's financial obligations, making it more vulnerable to economic downturns. In this case, the \$9.5 billion in new debt raised Kraft's overall financial obligations, which meant that the success of the acquisition was highly dependent on Cadbury's integration.

Building upon established capital structure theories, Kisgen (2006) introduced the Credit Rating–Capital Structure Hypothesis (CR-CS), which suggests that credit ratings significantly influence a firm's capital structure decisions, due to the distinct costs and benefits associated with varying rating levels. In fact, his study shows that firms nearing a potential rating change tend to issue less debt relative to equity.

Based on Moody's methodology, the increased leverage placed Kraft on the cusp of a downgrade, with credit rating agencies placing the company under review, threatening higher default probabilities and borrowing costs. Although Kraft's scale and strong business profile provided some buffer against a rapid decline in creditworthiness, the post-acquisition financial profile left little room for operational missteps or external shocks.

According to Moody's (2022) Rating Methodology for Consumer-Packaged Goods, key metrics for determining credit ratings include Total Debt/EBITDA, EBITDA/Interest Expense, and Debt/Capitalization, essential for assessing a firm's leverage and coverage. For a company like Kraft, with an investment-grade Baa2 rating, typical benchmarks include Total Debt/EBITDA ratios ranging from 2.5x to 3.5x and EBITDA/Interest Expense ratios exceeding 5.0x. Such metrics indicate moderate leverage and robust coverage, characteristic of firms with stable cash flows and manageable financial obligations. In Kraft's case, its leverage post-acquisition, driven by the \$9.5 billion debt issuance, would likely elevate its Total Debt/EBITDA ratio. While the acquisition is expected to increase Kraft's EBITDA, the overall impact on its financial ratios depends heavily on whether anticipated synergies and Cadbury's contributions effectively offset the additional debt burden and associated interest expenses. If challenges arise in integrating Cadbury or if the projected synergies fail to materialize, Kraft's EBITDA growth could fall short, putting pressure on the company's financial stability.

Moreover, the increased leverage puts Kraft near the Baa3 credit rating threshold, signaling a higher default risk. According to Moody's Corporate Default and Recovery Rates (1920–2009), a downgrade to Baa3 in 2009 would elevate Kraft's one-year default probability to 0.369% and its five-year default probability to 3.164%, positioning the company at the lower end of the investment-grade spectrum. Furthermore, Moody's 2010 One-Year Corporate Default Rate

Forecast for the U.S. Beverage, Food, & Tobacco industry stood at 1.1%, underscores the risks of operating with high leverage in a sector traditionally characterized by stable but low-margin operations. While 1.1% may appear modest in comparison to more volatile industries, it represents a noteworthy concern given the historical stability of this sector.

For the remaining 40% stock component of the deal, Kraft decided to issue 262 million additional shares of their Common Stock, which had a fair value of \$7,457 million. This approach balanced the acquirer's financial burden by combining debt and equity. This strategy aligns with Signaling Theory that suggests that companies use financial decisions to convey information to the market. By issuing new shares, Kraft signals confidence in its prospects and the expected success of the acquisition. This can reassure investors that the company anticipates strong performance and growth, making the equity issuance a positive signal (Ross, 1977).

On the downside, this strategy might lead to shareholder dilution, as explained by Agency Theory, which emphasizes conflicts of interest between management and shareholders. Issuing new shares reduces the ownership percentage of existing shareholders, which can weaken their voting power and influence over company decisions, often causing dissatisfaction. Moreover, it also reduces Earnings Per Share (EPS), since the company's net income is divided by a larger number of shares, potentially reducing the attractiveness of the company's stock.

Question 2) The form of consideration used in mergers and acquisitions (M&A) significantly impacts how risks and responsibilities are distributed between the acquiring and target firms. The choice of payment, whether cash, stock, or a mix of both, affects risk allocation, ownership structure, and the transaction's long-term economic effects. Acquirers aim to minimize expenses and risks, while target firms seek to maximize their sale price. Therefore, determining a balanced

payment plan is crucial for the deal's success. This decision influences the post-acquisition phase, potentially affecting the stability and success of the merged entity.

According to Faccio and Masulis (2005), the form of consideration used in M&A transactions is especially important in the case of hostile takeovers, in which the target company's management may object to the purchase. In such cases, striking a balance between cash and stock can be used to negotiate the conditions of engagement, balancing risk-sharing mechanisms to make the offer more appealing to target shareholders while also addressing the acquirer's financial restrictions and strategic objectives. Finally, the method of payment determines who bears the costs of uncertainty about future performance and integration risks, influencing both parties risk-return profiles.

In hostile takeovers, cash payments are more commonly employed than stock as they are often viewed as the most straightforward payment method, with the exchange of cash for the target company's shares, completing a simple transfer of ownership, with clear-cut roles for both parties. This structure is particularly appealing to the target's shareholders, as it provides them immediate liquidity and protection from potential risks related to the future merged entity's performance. This immediacy is particularly appealing in hostile scenarios, where trust between the parties is minimal. However, this method of payment places the acquirer in a position of greater risk, especially if the cash payment is financed through debt. Hansen's Risk Sharing Hypothesis (1987) suggests that an all-cash deal can expose the acquirer to substantial valuation risks, particularly in cases when assessing the target's true value proves to be difficult. In these cases, the acquirer must manage integration challenges and ensure the expected synergies are realized, without transferring any risk to the target's shareholders.

For Kraft's acquisition of Cadbury, opting for an all-cash approach would have required Kraft to take on additional debt beyond the \$9.5 billion already designated for the cash component of the deal. This would have further elevated Kraft's leverage, raising its debt-to-equity ratio above the post-acquisition level. Such an increase in debt could have made Kraft more vulnerable to financial challenges if expected synergies failed to materialize. According to the Trade-Off Theory (Kraus & Litzenberger, 1973), while debt financing offers tax benefits through interest deductions, heightened leverage also raises the risk of bankruptcy, particularly during the uncertain post-acquisition phase.

Alternatively, payment in stock allows target shareholders to receive shares in the acquiring firm and thus gain a stake in the merged entity. This structure facilitates the dynamic of shared responsibility for future performance outcomes, distributing risks associated with integration challenges, unrealized synergies, and market value fluctuations between the acquiring company and target's shareholders. Hansen (1987) notes that this method protects the acquirer from overpaying for a target with uncertain value, as both parties share the future gains and losses of the combined company. Had Kraft chosen an all-stock transaction for Cadbury, Cadbury's shareholders would have become co-owners of Kraft, directly sharing the integration risks. This would have lowered Kraft's immediate financial obligations by reducing the need to raise significant debt but highly increasing the need for the issuance of new shares. This approach might have led to share dilution for Kraft's existing shareholders, potentially affecting earnings per share, and exerting downward pressure on Kraft's stock price.

In Kraft's case, a blended payment method of 60% cash and 40% stock allowed it to reduce the strain of raising more cash while simultaneously involving Cadbury's shareholders in the future performance of the merged entity. By combining cash and stock, Kraft was able to achieve a

balanced risk-sharing approach, granting liquidity to Cadbury's shareholders while limiting the amount of debt financing required. This method allowed Kraft to distribute some of the acquisition risks.

To assess and better quantify risk distribution between parties it's possible to compute how much Kraft's share price would need to fall for the acquisition to no longer be attractive to Cadbury's shareholders. The deal consisted of a fixed cash payment of 500 pence per Cadbury share, which was risk-free for the target, and a stock component of 0.1874 Kraft shares per Cadbury share. To determine the value of the equity component, Kraft's share price on the last traded day before the final offer of \$29.58 was multiplied by 0.1874, resulting in approximately \$5.54. Converting this amount to British pence at an exchange rate of 1 USD equals to 62 pence (Exhibit 28), the equity portion contributed 343.68 pence per Cadbury share. Combining the fixed cash component of 500 pence with the equity portion, the total offer value was 843.68 pence per Cadbury share. For the acquisition to no longer be attractive to Cadbury shareholders, the total offer value would need to fall below Cadbury's last trading price prior to acquisition of 790 pence. Since the cash component of the offer was fixed, the equity component would need to decline to account for this drop. Specifically, it would need to decrease by 53.68 pence, resulting from 843.68 pence minus 790 pence. To calculate how much Kraft's share price would need to decline for this to occur, the required drop in the equity component of 53.68 pence was divided by the number of Kraft shares per Cadbury share of 0.1874. This yielded a decrease of 286.84 pence in Kraft's share price. Converting this value back into USD, the required decline in Kraft's stock price was calculated as \$4.62. Finally, the percentage decline in Kraft's share price was determined by dividing the required drop of \$4.62 by the initial share price of \$29.58, resulting in approximately 15.62%. This calculation demonstrates that if Kraft's stock price fell by 15.62%, the equity component of the

offer would lose sufficient value to bring the total offer below Cadbury's last traded share price, rendering the acquisition unattractive to Cadbury shareholders.

Examining the likelihood of such a decline sheds light on how risks were distributed in the deal and the strategic considerations behind its structure. Kraft Foods, as a large, stable multinational corporation, historically exhibited lower stock price volatility compared to smaller or less diversified companies. After acquisitions, empirical studies such as Moeller, Schlingemann, and Stulz (2004) show that acquiring firms' stock performance varies based on deal characteristics, industry dynamics, and integration success. One meta-analysis further observed that the average stock price decline for acquirers' post-acquisition typically ranges from 1% to 3% within the first year after the deal closes. Therefore, such a sharp decline of 15.62% would require either a severe market shock deriving from external economic events, such as the fallout from the 2008 financial crisis, or even concerns over Kraft's financial health, increased leverage, or market skepticism about the strategic value of the Cadbury acquisition. However, by early 2010, global financial markets were expected to be stabilizing after the 2008 crisis, and Kraft had a solid track record of managing large-scale operations. Academic research by Malmendier and Tate (2008) on managerial overconfidence in acquisitions suggests that acquirers tend to overestimate synergies, but market skepticism about these synergies may only marginally affect stock prices unless combined with poor financial performance. Thus, such a 15.62% decline in Kraft's stock price was unlikely under normal circumstances.

This decline threshold highlights how risks were asymmetrically distributed. Kraft bore most of the financial and operational risks, while Cadbury shareholders faced limited exposure, particularly with the deal's stock component. Kraft's strategic structuring minimized downside risk, ensuring the deal's appeal for Cadbury shareholders.

Question 3) Modigliani and Miller's (1958) capital structure irrelevance theory posits that in a perfect market, a firm's value is unaffected by its financing methods. However, in practice, factors such as taxes, bankruptcy costs, and information asymmetry make capital structure decisions crucial.

The Weighted Average Cost of Capital (WACC) is the average rate a company is expected to pay to both debt holders and equity investors. It combines the costs of debt and equity, weighted by their proportions in the company's capital structure.

In 2009, Kraft Foods had \$18,990 million in total debt and \$16,994 million in Net Debt, calculated by subtracting \$2,101 million in Cash and Equivalents, adjusted for 5% Operating Cash, from Total Debt. The adjustment reflects excess cash available for debt repayment, ensuring liquidity for daily operations, as required in the consumer-packaged goods industry. Meanwhile, The company's market capitalization was \$40,172 million, determined by multiplying its end-of-year share price of \$27.18 by 1,478 million outstanding shares. Adding Net Debt to Market Capitalization resulted in an Enterprise Value of \$57,166 million. Based on these figures, the weights of debt (D/V) and equity (E/V) in the capital structure were 29.7% and 70.3%, respectively (Appendix 1).

The cost of equity (r_e), which represents the return required by shareholders, was calculated using the Capital Asset Pricing Model (CAPM), which incorporates the risk-free rate (r_f), the beta of equity (β_e) and the market risk premium (MRP). For Kraft, the r_f was 3.84%, derived from the yield on 10-year U.S. Treasury bonds. Kraft's adjusted β_e was 0.667, accounting for its historical sensitivity to market fluctuations. The MRP was 6.81%, reflecting the average premium demanded by investors for market risk. Substituting these values into the CAPM formula, the cost of equity amounted to 8.81% (Appendix 2).

The cost of debt (r_d) was derived from Bloomberg data and reported as 3.51% (Appendix 2). To account for the tax shield provided by interest payments, the after-tax cost of debt was calculated using a corporate tax rate of 28.80%, as reported in Kraft's 2009 annual report, resulting in an after-tax cost of debt of 2.50%.

Finally, the WACC was calculated by multiplying the respective weights of equity and debt by their respective costs, which resulted in a 6.88% weighted-average cost of capital (Appendix 2). This figure represents Kraft's blended cost of financing prior to the Cadbury acquisition.

Building on the calculation of Kraft's WACC prior to the acquisition, it is essential to estimate the capital structure and cost components immediately following the acquisition of Cadbury in 2010. This transaction significantly altered Kraft's financial position, as it was financed through a combination of debt issuance and equity issuance.

The merged entity is estimated to have a new total debt amount of \$31,102.75M, resulting from the sum of the 2009 Kraft's total debt of \$18,990M, with Cadbury's existing debt obligations of \$2612.75M in the same year and the inclusion of \$9.5B in newly issued debt. The company's Net Debt is estimated to be \$16,994.05 million, resulting from the subtraction of Cadbury's 2009 Cash and Cash Equivalents of \$429.5M and Kraft's 2009 Cash and Cash Equivalents of \$2,101M from Total Debt of the merged company, and then adjusted to operating cash in the amount of \$21.475M for Cadbury and \$105.05M for Kraft, assuming that operating cash will be around 5% of Cash and Cash Equivalents (Appendix 3).

To estimate Kraft's post-acquisition price per share, a regression analysis was conducted using historical transactions within the same industry (Appendix 4). The analysis examined the relationship between acquirers' share prices 1 month prior to and 1 month after acquisitions. With a p-value <0.05 and an R^2 of 99.2%, the model demonstrated strong statistical significance and

predictive power. Therefore, the resulting equation $y = 0.9438x + 2.3807$ is a reliable predictor of the post-acquisition price (y) based on the pre-acquisition price (x). Considering the acquisition was finalized on the 2nd of February 2010, the share price on the 31st of December 2009 was considered the share price 1 month-prior to the acquisition. Based on this analysis, the price per share was estimated to be \$28.03 one month after Kraft's acquisition of Cadbury. The number of shares outstanding for the merged entity was calculated by adding Kraft Foods' 2009 number of shares outstanding to the 262 million shares issued as part of the transaction. This results in a Market Capitalization of \$48,772.2 million and an Enterprise Value of \$77,470.975 million. The weights of debt and equity in the capital structure were subsequently calculated, with debt accounting for 37.0% and equity making up 63.0% of the Enterprise Value (Appendix 3).

To calculate the cost of equity for 2010, Kraft's equity beta from 2009 was unlevered, resulting in an unlevered beta of 0.51, which reflects the company's inherent business risk independent of its capital structure. Given that Cadbury is a smaller company compared to Kraft, the merger's operational risks are unlikely to deviate significantly from Kraft's historical risk profile. Cadbury's size and market share, while notable, do not significantly alter the combined entity's fundamental exposure to market volatility or systematic risk. Therefore, the unlevered beta for the 2010 merged entity was assumed to remain consistent with Kraft's unlevered beta from 2009. The unlevered beta was then relevered to account for the merged entity's new capital structure. Using the updated debt-to-equity ratio derived from the 2010 post-merger financials and incorporating a corporate tax rate of 33%, based on the average effective tax rate over the 10-year period (FY2000–FY2009) (Appendix 5), the new equity beta for the merged entity was calculated to be 0.71. The risk-free rate was assumed to remain consistent at 3.84%, based on the 10-year U.S. Treasury bond yield in 2010. Additionally, the market risk premium (MRP) was retained at 6.81%, consistent with 2009

figures. Using the Capital Asset Pricing Model (CAPM), the post-acquisition cost of equity was calculated at 8.71% (Appendix 6).

To calculate the cost of debt for the merged entity in 2010, it was assumed the company's expected credit rating would fall within the BBB category. Based on this rating, the debt beta (β_d) for the merged entity was assumed to be 0.1, based on the average β_d for companies with a BBB credit rating, as reported by Schaefer and Strebulaev (2009) in their study on risk in capital structure arbitrage (Exhibit 29). Based on this, the yield to maturity (YTM) was calculated, by multiplying the β_d by the MRP and then summing it with the r_f , which equaled to 4.52%. To account for credit risk, the probability of default (PD) and loss given default (LGD) for BBB-rated debt were incorporated. Historical data from 2000 to 2009 indicates an average PD of 0.29% and an average LGD of 0.21% (Appendix 7). Considering this, the r_d was calculated by adjusting the YTM for expected credit losses, which had a minimal effect, leaving the cost of debt at 4.52% (Appendix 6). Then, the after-tax cost of debt was calculated using the 33,0% corporate tax rate, totaling to 3.03%.

Finally, the WACC was calculated by multiplying the respective weights of equity and debt by their costs, resulting in a 6.60% weighted-average cost of capital (Appendix 6).

The Cadbury acquisition significantly altered Kraft Foods' capital structure. Pre-acquisition, the company relied more on equity, with lower leverage ensuring stability. Post-acquisition, increased debt issuance and Cadbury's assumed liabilities raised the cost of debt and equity due to elevated shareholder risk. However, the overall WACC decreased slightly, as greater reliance on debt benefited from its lower after-tax cost compared to equity.

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Appendix

Appendix 1 - Kraft Foods' Historical D/V and E/V Analysis (in Millions of \$)

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

Appendix 2 - Kraft Foods' WACC Calculation before acquisition (as of 31/12/2009)

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

Appendix 3 - D/V and E/V Estimate for the Merged Entity after acquisition in 2010 (in Millions of \$)

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

Appendix 4 – Regression Analysis of Share Price on M&A Transactions

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

SUMMARY OUTPUT

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

ANOVA

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

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

RESIDUAL OUTPUT

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

Appendix 5- Kraft Foods' Average Effective Tax Rate (2000-2009)

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

Appendix 6 - Kraft Foods' WACC Calculation after acquisition in 2010

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

Appendix 7 – Annual Corporate Probability of Default and Credit Loss Rates for a credit rating BBB (2000-2009)

Rating BBB (2000-2009)				
Year	Probability of Default (%)	Average Probability of Default (%)	Loss Given Default (%)	Average Loss Given Default (%)
2000	0.390	0.29%	0.296	0.21%
2001	0.197		0.155	
2002	1.093		0.770	
2003	0.000		0.000	
2004	0.000		0.000	
2005	0.182		0.082	
2006	0.000		0.000	
2007	0.000		0.000	
2008	0.474		0.314	
2009	0.771		0.480	

7 The Aftermath of the Deal

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

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

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

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

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

The years following the acquisition were marked by significant restructuring within Kraft Foods. In 2011, Kraft announced its decision to split into two separate entities: a high-growth global snacks business and a North American grocery company. By October 2012, this restructuring was completed, resulting in the creation of Mondelez International, which took ownership of Kraft's snack and confectionery brands, including Cadbury, Oreo, and Trident gum. The remaining Kraft Foods entity retained the grocery business and focused on North American staples such as cheese and packaged meals. This division, seen by many as a financial maneuver, only intensified the belief that Cadbury was used as a financial asset rather than being valued for its brand and heritage. Mondelez prioritized expanding its snack portfolio in emerging markets, where Cadbury's strong brand presence in countries like India, South Africa, and parts of Asia was a major asset. Mondelez closed several factories in the UK and Australia, shifting production to lower-cost locations such as Poland and Mexico. These cost-cutting measures, designed to save \$3 billion annually, improved the company's financial outlook but alienated parts of its customer base. Critics argued that shifting production undermined product quality and hurt the brand's legacy.

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

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

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

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

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