Hershey May Lose Market Share as Cadbury Slips Away

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Jan. 20 (Bloomberg) -- Hershey Co.’s third failed effort to merge with Cadbury Plc in eight years may leave the U.S. chocolate maker and the charitable trust that controls it grappling to retain investors and market share.

Kraft Foods Inc. said yesterday its 11.9 billion-pound ($19.4 billion) offer for Cadbury won the U.K. candy company’s approval, after Hershey’s board had spent months debating whether to bid and on what terms. The Hershey trust, chaired by 75-year-old attorney LeRoy Zimmerman, holds 80 percent of the company’s voting power and 31 percent of its common shares.

“You have a major problem with Hershey with regard to globalization of the marketplace,” said Mario Gabelli, the chairman and chief executive officer of Gamco Investors Inc., which holds Hershey shares. “At some point, who wants to own a stock of a company where they can’t get their act together with regards to the voting interest?”

Hershey and the trust were working over the past weekend on a possible bid, people familiar with the matter said. Kirk Saville, a Hershey spokesman, declined to comment on any decision by the company and the effect of the Cadbury takeover on competition. Tim Reeves, a trust spokesman, also had no comment.

The company is unlikely to top Kraft, people familiar with the matter said. A Kraft-Cadbury combination will create the world’s largest confectioner, surpassing Mars Inc. U.K. takeover regulators gave Hershey and Ferrero SpA, the only other declared potential suitors, until Jan. 25 to announce they will bid or back out.

**Rejected Bid**

The trust, in the face of political pressure, halted an auction in 2002 that produced bids of $12.5 billion from Wm. Wrigley Jr. Co. and a joint $11.2 billion bid from Cadbury and Nestle SA. Merger talks with Cadbury also went nowhere in 2007, the Wall Street Journal reported at the time.

The trust has since pledged not to give up control of the company, founded in 1894, to strike a merger deal.

The legacy of 2002 has been a drag on Hershey, said Harvard Law School professor Robert Sitkoff, who co-wrote a paper for the Columbia Law Review in 2008 saying that the trust’s controlling stake has impeded shareholder value.

“They succeeded in keeping Hershey Co. independent and under the control of the Hershey Trust, but look at what’s been lost,” Sitkoff said in an interview yesterday. “The industry is passing them by.”
Market Share

Hershey was the biggest U.S. confectioner until 2008, when McLean, Virginia-based Mars acquired Wrigley for $23 billion. Hershey held 4.6 percent of the global confection market in 2008, down from 4.9 percent the previous year, according to Euromonitor International. Closely held Mars held 14.5 percent. Uxbridge, England-based Cadbury had 10.2 percent and Northfield, Illinois-based Kraft 4.7 percent.

“The Hershey Trust hasn’t taken advantage of M&A opportunities because it’s not willing to cede voting control,” B. Craig Hutson, a corporate bond analyst at Gimme Credit, said yesterday. “The trust’s needs in ensuring the future of the Milton Hershey School aren’t consistent with enhancing shareholder value.”

Company founder Milton Hershey bequeathed his stock in 1918 to the trust, which oversees a school for disadvantaged children in Hershey, Pennsylvania, where the company is based. As of Nov. 29, about 40 percent of the trust’s $6.8 billion in assets were in Hershey stock, according to Reeves.

Hershey Shares

Before today, Hershey shares had declined about 6.4 percent since David West took over as CEO in December 2007. Including reinvested dividends, the stock fell less than 1 percent. Packaged-food peer J.M. Smucker Co. rose 27 percent in the same period, helped by the acquisition of the Folgers Coffee Co.

Hershey declined 33 cents to $37.02 at 10:12 a.m. in New York Stock Exchange composite trading. Kraft fell 66 cents, or 2.2 percent, to $28.75. Cadbury declined 1.5 pence to 835 pence in London.

A takeover of Cadbury would have required Hershey to swallow a company twice its size. Now Hershey will have to rely on small acquisitions of regional players to expand internationally, said Erin Swanson, an analyst with Morningstar Inc. in Chicago.

“Cadbury really was the pure play, global distribution platform that would be most attractive to Hershey,” Swanson, who recommends holding Hershey, said yesterday. “I can’t think of another major player that would have really fit that bill for Hershey.”

Hershey has an agreement making it the sole U.S. distributor of Cadbury’s sweets. Michael Mitchell, a spokesman for Kraft, said a change to that arrangement isn’t anticipated.

“They still operate with a portfolio of very iconic national brands,” Swanson said. “In terms of meaningful growth opportunities, there’s nothing that’s going to catapult them to the global distribution that a tie-up with Cadbury would have.”

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