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Transaction Report - Sector: Food Manufacturers

CADBURY PLC (100%)

Contents

Summary

Target	**CADBURY PLC**		
Industrial Sector	Food Manufacturers	SIC Codes	2064 2065 2066 0 0
Activities	CONFECTIONERY	Country	United Kingdom

Bidder	**KRAFT FOODS INC**		
Country	USA	SIC Codes	2052 2022 2099 2064 0
Activities	MANUFACTURE OF FOOD AND BEVERAGES		

Date Announced	09/11/2009	Date Completed	02/02/2010
Deal Status	Completed	Deal Type	Public
Deal Attitude	Initially Hostile	Cross Border	Yes
% Capital Owned	0	% Capital Bid For	100
Competitive Status	Single Bidder		
Regulatory Referral	No Referral		
Consideration Type	Cash plus Ordinary Shares		

Deal Value(m)		
	Exchange Rate to Sterling ("STG") = 1.000	
	1) STG	2) STG
Ordinary Offer Value	11679.715	11679.715
Other Equity Value	163.938	163.938
Total Equity Value	11843.653	11843.653
Net Debt	1234	1234
Minorities	20	20
Firm Value	13097.653	13097.653

Target Financials (m)		
	Exchange Rate to Sterling ("STG") = 1.000	
	1) STG	2) STG
Sales	5975	5975
EBITDA	1018	1018
EBITA	0	0
Operating Profit	808	808
Net Profit Before Tax	0	0
Net Profit After Tax	0	0
Net Income (Earnings)	0	0
Shareholders Funds	0	0

Equity Value Ratios	
Price / Sales	1.98
Price / Net Profit before Tax	0
Price / Earnings	0
Price / Book	0

Enterprise Value Ratios	
Enterprise Value / Sales	2.19
Enterprise Value / EBITDA	12.87
Enterprise Value / EBITA	0
Enterprise Value / EBIT	16.21

Accounts Source	CADBURY TRADING STATEMENT/DEFENCE DOC (14/1/10)	Reliability	Estimated
Deal Value Source	KRAFT PRESS RELEASE (19/01/10)	Reliability	Accurate

Advisors

Advisors	To bidder	To Target/Divestor
Financial	**Lazard and Citigroup and Deutsche Bank**	**Goldman Sachs and UBS and Morgan Stanley**
Legal		

Target Financials

Income Statement	31/12/2009
In Millions	
TURNOVER	5975
Cost of Sales	0
Gross Profit	0
Other Income	0
Associated Income	0
Pre-Operating Profit Exceptls	0
Depreciation	210
Amortisation	0
OPERATING PROFIT	808
Interest Income	0
Interest Expense	0
Exceptionals	0
Non-Recurring Items	0
NET PROFIT BEFORE TAX	0
Tax	0
NET PROFIT AFTER TAX	0
Minority Items	0
Extraordinary Items	0
NET INCOME	0
Ordinary Share Dividends	0
Preference Share Dividends	0
Financial Currency	STG

Balance Sheet	
In Millions	
Tangible Assets	0
Fixed Investments / Assoc.Comp	0
Intangible Assets	0
TOTAL FIXED ASSETS	0
Cash & Marketable Securities	0
Debtors	0
Stock	0
Other Current Assets	0
TOTAL CURRENT ASSETS	0
Creditors	0
Short Term Financial Debt	0
Long Term Financial Debt	0
Other Liabilities / Provisions	0
TOTAL LIABILITIES (Excl. SHF)	0
SHAREHOLDER FUNDS	0
Minority Interests	0
TOTAL ASSETS	0
Exchange Rate to £ STG	1

Accounts Source	CADBURY TRADING STATEMENT/DEFENCE DOC (14/1/10)	Reliability	Estimated
Deal Value Source	KRAFT PRESS RELEASE (19/01/10)	Reliability	Accurate

Deal Value

Deal Value Source	**KRAFT PRESS RELEASE (19/01/10)**
Deal Value Reliability	Accurate
Deal Value Currency	STG

	Deal Value Breakdown	
	Value of Cash Offer (m)	Value of Share Offer (m)
Ordinary Shares	0	11679.715
Options	0	163.938
Preference Shares	0	0
Convertible Shares	0	0
Redeemable Shares	0	0
Other Equity Shares	0	0
Total Equity Value	0	11843.653
Net Debt	0.000	1234
Minorities	0.000	20

Firm Value	0	13097.653

Share Data

No. of Ordinary Shares	1373872386	Currency of Cash/Share Offer	STG

	Initial	Final
Cash Offer Value	0	0
Share Offer Value	7.254	8.501
	Target Shares	Bidder Shares
Initial Offer Ratio	1	0.259
Final Offer Ratio	1	0.187
	Initial	Final
Extra Payment Value	3	5.1
Ratio For Ords	1	1
Ratio For Prefs	0	0
Ratio For Others	0	0
	Number of Options	Exercise Price of Options
1)	47,555,570	5.054
2)	0	0
3)	0	0

Type	Number of	Cash Offer Per Share	Share Ratio	
			Target	Bidder
Preference Shares	0	0	0	0
Convertible Shares	0	0	0	0
Redeemable Shares	0	0	0	0
Other Equity Shares	0	0	0	0

Share Prices

	BEFORE			AFTER		
Time	Target	Bidder	Bid Premia %	Target	Bidder	Bid Premia %
1 Day	7.58	16.43	12.15	7.63	16.44	11.42
1 Week	7.81	16.96	8.85	7.815	16.95	8.78
2 Weeks	7.765	16.38	9.48	8.14	16.77	4.44
3 Weeks	7.93	16.69	7.20	8.06	16.31	5.48
4 Weeks	7.89	16.07	7.75	7.9	16.37	7.61
30 Day Average	7.865	16.35	8.10	-	-	-
2 Months	7.793	-	9.09	-	-	-
3 Months	5.773	-	47.26	-	-	-
Day Before Final Increased Offer	-	18.15	-	-	-	-
1 Day Before Completion	-	-	-	8.32	17.21	2.18
Target's Share Prices Currency						
Bidder's Share Prices Currency						

Pre-Bid Speculation Data		
Pre-Bid Speculation Date	Target Share Price	Bid Premia %
04/09/2009	5.623	51.19

Offer History

	Date	Cash Value	Share Value
First Offer	09/11/2009	0	7.254
Second Offer	19/01/2010	0	8.501
Third Offer		0	0
Fourth Offer		0	0
Fifth Offer		0	0

Disclosure Table (Equivalent) Data

Date Added	07/09/2009	Date Removed	02/02/2010
Date Indicative Offer	07/09/2009	Value Indicative Offer	7.45
Date Increased Indicative Offer		Value Increased Indicative Offer	0
Offeror Named	07/09/2009		

Synergy Data & Industry Specific Multiples

Synergy Data			
	M		M
Reported Revenue Synergies	0	One Off Charge	1300
Reported Cost Synergies	675	Currency of Synergies / Charge	USD
Total Synergies	675	Date Synergies Achieved by	01/01/2012

Industry Specific Multiples (ISM)			
ISM Term			
ISM in Native Currency (Enterprise Value Basis)	0	ISM in Native Currency (Equity Value Basis)	0.000000
ISM in Sterling (Enterprise Value Basis)	0	ISM in Sterling (Equity Value Basis)	0
ISM Native Currency		ISM Native Currency X Rate / STG	0

Comments

OVERVIEW

On 9 November 2009, the US-based listed food conglomerate Kraft Foods Inc. ("Kraft") announced the terms of an unsolicited cash-and-shares offer for the entire issued and to be issued share capital of Cadbury plc ("Cadbury"), the quoted UK-based confectionery group. The offer terms valued each Cadbury share at 717 pence[+] and the entire existing issued share capital of Cadbury at £9.8 billion.

The Cadbury Board's immediate response published later the same day was to reject Kraft's offer (see "Reasons for rejecting the offer").

The events that followed are summarised below:

* On 18 November 2009, quoted US confectionery group Hershey Company ("Hershey") announced that it was reviewing its options regarding a possible offer for Cadbury.

* Later on 18 November 2009, privately-held Italian chocolate confectionery company Fererro International SA ("Ferrero") announced that it was reviewing its options regarding a possible offer for Cadbury.

* On 14 December 2009, Cadbury issued its defence document and outlined further reasons behind its decision to reject the offer (see "Reasons for rejecting the offer").

* On 15 December 2009, Kraft announced that the transaction had approved by the US competition authorities.

* On 5 January 2010, Kraft announced that it had reached a definitive agreement to sell the assets of its North American pizza business to Swiss food group Nestle SA for US$3.7 billion. As a result, Kraft stated that it would use the full net proceeds of the disposal to fund a partial

cash alternative as part of the offer for Cadbury. Kraft disclosed that it was adopting this strategy a number of Cadbury shareholders had expressed a desire to have a greater proportion of the offer in cash, and because Kraft shareholders had expressed a desire for the company to be more sparing in its use of undervalued Kraft shares as consideration. The partial cash alternative was estimated at 60 pence per Cadbury share or 240 pence per Cadbury ADS. More details terms would be published around 19 January 2010, being the last day Kraft was allowed to amend the offer terms.

* On 6 January 2010, the EU Commission conditionally approved the transaction. In order for the transaction to completed, Kraft had agreed to dispose of Cadbury's Polish and Romanian chocolate confectionery businesses.

* Also on 6 January 2010, Kraft announced that as at 5 January 2010 - being the first closing date of the offer - valid acceptances had been received in respect of 1.52% of Cadbury's existing issued share capital. The offer was extended to 2 February 2010.

* On 14 January 2010, Cadbury issued a second defence document and outlined further reasons behind its decision to reject the offer (see "Reasons for rejecting the offer").

* On 19 January 2010, Kraft announced the terms of a recommended final offer for Cadbury. The increased cash-and-shares offer valued each Cadbury share at 850 pence and the entire issued and to be issued share capital of Cadbury (including options) at £11.9 billion.

* On 22 January 2010, Hershey announced that it did not intend to make an offer for Cadbury.

* On 25 January 2010, Ferrero announced that it did not intend to make an offer for Cadbury.

* Also on 25 January 2010, Kraft announced the definitive terms of the mix and match facility (see "Payment Details").

* On 27 January 2010, Kraft announced that it had reduced the acceptances condition from 90% of Cadbury's ordinary share capital to 50% plus one Cadbury share.

* Kraft declared the offer wholly unconditional on 2 February 2010. As of this date, valid acceptances had been received in respect of 71.73% of the existing issued share capital of Cadbury.

Having previously given assurances that it would continue to operate Cadbury's facility in Somerdale - which Cadbury itself had planned to close - Kraft announced on 9 February 2010 that the closure plans were so far advanced that it would be unrealistic to reverse them. The plant would therefore be closed by 2011, in line with the plans already put in place by Cadbury. This decision subsequently drew criticism from the Takeover Panel, who ruled on 26 May 2010 that Kraft had not met the standards of Rule 19.1 of the Takeover Code (see "Takeover Panel's reaction to Somerdale closure").

NB1. Kraft announced on 7 September 2009 that it was considering making an offer for Cadbury.

NB2. In accordance with the revised recommended offer, Cadbury had agreed to pay Kraft an inducement fee of £117.7 million under certain circumstances (see "Payment Details").

[+] Based on Kraft's closing share price of 6 November 2009.

BIDDER PROFILE

1) Overview

Listed on the New York Stock Exchange since March 2007, Kraft was one of the world's largest food and beverage companies. It was headquartered in Northfield, Illinois, and employed some 100,000 staff globally across 168 processing and manufacturing facilities in more than 70 countries. The group marketed a broad portfolio of brands in the packaged food products market, encompassing snacks, beverages, cheese, convenient meals and various packaged grocery products. Amongst Kraft's flagship brands were Terry's, Milka, Côte d'Or and Toblerone chocolates; Oreo, Ritz and LU biscuits; Kenco, Maxwell House, Carte Noire and Jacobs coffees; and Dairylea and Philadelphia cheeses. Of the group's portfolio, nine brands had annual revenues exceeding US$1 billion and over 50 had annual revenues greater than US$100 million. For the year ended 31 December 2008, Kraft reported pre-tax profits from continuing operations of US$2.6 billion on revenues of US$41.9 billion. As at 30 September 2009, the group had gross assets of US$66.7 billion and net assets of US$25.2 billion.

2) Operations

Kraft operated in the following core consumer sectors:

* Snacks - the relevant segment in the context of this transaction, Kraft snack division specialised in the manufacture and marketing of biscuits (cookies and crackers), salad snacks

and chocolate confectionery. Major European brands within this business unit included Milka, Suchard, Côte d'Or, Marabou, Toblerone, Freia, Terry's and Dime chocolates; and Oreo, Digestive, TUC and Gyori biscuits.

* Beverages - coffee, packaged juice drinks and powdered beverages;

* Cheese - natural, processed and cream cheeses;

* Grocery - spoonable and pourable dressings, condiments and desserts; and

* Convenient meals - frozen pizza, packaged dinners, lunch combinations and processed meats.

3) Segment Information

The following is a breakdown of Kraft's revenue according to business segment:

Y/E 31/12 US$ million	2008	2007
Kraft North America:		
- Beverages	3,001	2,990
- Cheese	4,007	3,745
- Convenient meals	4,240	3,905
- Grocery	3,389	3,277
- Snacks	5,025	4,879
- Foodservice	4,294	4,080
Kraft International:		
- European Union	11,259	7,951
- Developing markets	6,986	5,307
Total	42,201	36,134

The following is a breakdown of Kraft's revenue according to geographic region:

Y/E 31/12 US$ million	2008	2007
United States	21,436	20,540
Europe	13,139	9,381
Other	7,626	6,213
Total	42,201	36,134

BACKGROUND

1) Initial Approach

The events that occurred prior to the formal launch of the offer are summarised below:

* On 7 September 2009, Kraft announced that it had made a proposal to the Cadbury Board regarding a potential combination of the two companies. The offer terms of 300 pence in cash plus 0.2589 new Kraft shares per each Cadbury share valued the entire existing issued share capital of Cadbury at £10.2 billion.

* Later on the same day, the Cadbury Board rejected Kraft's proposal which it felt fundamentally undervalued the company and its prospects.

* On 8 September 2009, in response to press commentary that compared Kraft's proposal with the multiple on offer in Mars' acquisition of Wrigley, Kraft stated that comparisons to historical multiples were "missing the point" as the "world had changed dramatically since then". Kraft stated that the most important comparison point was the premium on offer - and the Kraft's proposal (at a then 28% premium to Cadbury's undisturbed share price) compared favourably with the Mars/Wrigley deal.

* On 12 September 2009, Cadbury published its full response to the Kraft Board.

* On 30 September 2009, the Takeover Panel announced that it had imposed a deadline of 5.00pm on 9 November 2009 for Kraft to either make a formal offer for Cadbury or announce that it did not intend to make an offer.

2) Recent Trading at Kraft

On 3 November 2009, Kraft released its third-quarterly report for 2009 in which the group delivered strong continued momentum in its underlying business. Organic revenue growth of 0.5% had been driven by continuing improvements in volume/mix, despite the dampening impact of several strategic decisions made to improve the long-term prospects of Kraft's business. This volume/mix trend underpinned strong gains in margins and earnings per share, with a 470 basis point improvement in operating margins and a 62% rise in earnings per share from continuing operations, including a 9 cent (equivalent to 26%) gain from operational sources. Kraft also raised earnings per share and cash flow guidance for the year. It increased its guidance for 2009 diluted earnings per share to at least US$1.97 from the previous expectation of at least US$1.93. Continued momentum in cash flow performance reflected strong operational performance, with Kraft raising its discretionary cash flow outlook for the year by US$400 million to at least US$3 billion. The group expected to achieve this guidance while continuing to increase investment behind its brands, with advertising and consumer marketing spending expected to grow to approximately 7% of sales from 6.7% of sales in 2008.

Kraft believed that this performance provided further evidence of its long-term sustainable business model and the attractiveness to Cadbury shareholders of holding Kraft shares. In the event that the offer for Cadbury was successful, Kraft expected to revise its long-term growth targets to 5+% for revenue and 9%-11% for earnings per share, from its previously announced 4+% and 7%-9% respectively.

3) Recent Disposal by Cadbury

On 3 April 2009, Cadbury completed the disposal of its Australian beverages business ("Schweppes Australia") to the Japanese beverages company Asahi Breweries Ltd for £550 million. This transaction has been written up elsewhere on the M&A Monitor database. This sale of Schweppes Australia was the final step in Cadbury becoming a "confectionery only" business, having previously sold its beverages operations in South Africa, Europe and the Americas.

REASONS FOR MAKING THE INITIAL OFFER

Over the previous three years, Kraft believed that it had built strong operating and financial momentum. Amongst other aspects, it had strengthened its senior leadership team, decentralised and empowered its business units, invested in core brands, built upon its scale in the marketplace and improved product quality.

As a result of the above actions, Kraft believed it was in a position to pursue its long-term strategy from a position of strength. Four priorities had shaped this strategy:

* focusing on growth categories to transform Kraft into a pre-eminent snack, confectionery and quick meals company. This was being achieved through exiting lower-growth, lower-margin businesses and reinvigorating high cash flow businesses to fund growth;

* expanding its footprint in rapidly growing developing markets to benefit from trading up by consumers and achieving the scale to establish cost-efficient infrastructure in key geographies;

* increasing its presence in the instant consumption channels as this niche continued to gain market share versus grocery channels in the US and European Union; and

* enhancing its margins by improving the portfolio mix and reducing costs while investing in quality.

Kraft believed that a combination with Cadbury would accelerate the achievement of these priorities. Thus, the combination has compelling strategic and financial rationale for shareholders of both Kraft and Cadbury.

Kraft believed that a combination with Cadbury would build on a global powerhouse in snacks, confectionery and quick meals, with an exceptional portfolio of leading brands around the world. Combining the Kraft and Cadbury businesses would create a global confectionery leader, with a portfolio including more than 40 confectionery brands, each with annual sales in excess of US$100 million. Globally, the enlarged group would rank number one in the chocolate and sugar confectionery segments and a strong number two in the high growth gum segment. Cadbury's brands such as Cadbury, Trident and Halls were highly complementary to Kraft's portfolio and would benefit from Kraft's global scope, scale and array of proprietary technologies and processes.

Kraft believed that confectionery markets were consolidating and scale was becoming increasingly important, in part due to retailers' increasing bargaining power, control of the supply chain and growing portfolio of their own retailer brands, which had benefited from the global economic climate. The combination of Kraft and Cadbury would therefore provide the necessary scale to compete even more effectively in the confectionery sector.

As Kraft's customers grew and consolidated, the group believed that there were benefits to growing along with them. Such course of action would allow Kraft to act as a stronger partner, would create efficiencies for both partners and would maintain balance as the customers increased their scale.

Cadbury's geographic footprint was complementary to that of Kraft. Importantly, a combination would increase scale in developing markets for both companies. Kraft's operations in developing markets delivered revenues twice those of Cadbury. Kraft's businesses in Brazil, China and Russia were, in aggregate, some three times larger than Cadbury's businesses in those countries. Conversely, Cadbury would provide Kraft with a meaningful entry into India and South Africa and would be transformational in Mexico. The enlarged group would also have improved positions in several developed markets, such as France and Spain.

Kraft and Cadbury's routes to market were also highly complementary. Kraft was particularly strong in the grocery channel in North America and Western Europe, whilst Cadbury was well-positioned in instant consumption channels. A combination would provide an enhanced platform for the enlarged group to distribute both companies' products through both channels and would create an attractive opportunity for higher growth and margins.

BIDDER'S INTENTIONS

Kraft believed that the two parties represented a uniquely complementary fit and expected that the combination would enhance the enlarged group's growth profile. The combination would augment the world-class capabilities of both companies by employing a "best of both" approach, from sales and marketing to distribution and management. In particular, Kraft believed that the global business network of the enlarged group would create opportunities for talented Cadbury employees and managers.

Within the UK, Kraft felt that it would be in a position to continue to operate the Somerdale facility (which was planned to be closed) and invest in Bournville, thereby preserving UK manufacturing jobs.

REASONS FOR REJECTING THE INITIAL OFFER

1) Initial rejection

In rejecting the offer on 9 November 2009, the Cadbury Board highlighted that the offer terms were unchanged from that previously proposed by Kraft on 7 September 2009. However, since that date the value of the Kraft share had fallen, therefore the offer terms were actually 4% lower than the initial proposal which had already been rebuffed by the Cadbury Board.

The Board felt that the Cadbury group was an exceptional standalone business with strong iconic brands, a sharp category focus and an enviable geographic scope. The Board did not feel that Kraft's offer even remotely came close to reflecting the true value of the business and involved the unattractive prospect of Cadbury being absorbed into a low-growth conglomerate model.

2) First defence document

Cadbury's defence document dated 14 December 2009 outlined the following further reasons behind the rejection of the offer:

* Cadbury was a business with exceptional growth opportunities, reflecting its strong position as a unique pure-play confectionery business, with iconic brands and leading positions in the attractive confectionery market;

* Cadbury had also built the leading position in emerging markets, which had driven significant revenue growth and which was expected to drive strong growth in the future;

* The first two years of the "Vision into Action" strategic plan had transformed Cadbury into a financially stronger, more competitive business which had delivered ahead of schedule;

* Kraft's offer failed to recognise the value of Cadbury's performance to date and the benefits of completing the "Vision into Action" plan set out in June 2007; and

* Following a mid-term review of the plan, started in Spring 2009, Cadbury's had upgraded its targets for the forthcoming four years which were expected to deliver significant additional value. The new long-term targets included:

- organic revenue growth of 5-7% per annum;
- improved margins of 16-18% by 2013;
- 80%-90% operating cash conversion from 2010; and
- double digit growth in dividends per share from 2010 onwards.

3) Second defence document

In conjunction with issuing its second defence document on 14 January 2010, Cadbury also published its 2009 performance review, the highlights of which included:

* 5% base business revenue growth, with second-half growth of 6% on same basis;

* Trading margin of 13.5%; up 155 basis points on a constant currency basis and 160 basis points

on an actual currency basis;

* All of Cadbury's businesses had contributed to good market shares and improved margins; and

* The "Vision into Action" plan was on track to deliver its 2011 goals.

In light of the above, Cadbury believed that Kraft's offer was even more unattractive than before and the second defence document outlined the following further reasons behind the rejection of the offer:

* The offer price valued Cadbury at only 11.9 times estimated 2009 EBITDA - lower than any comparable transactions in the sector, which were typically between 14.3 and 18.5 times EBITDA;

* Since Kraft's approach on 7 September 2009, the Cadbury Board believed that the company's standalone value had risen further, reflecting:

- the strong 2009 financial performance;
- upgraded targets for the forthcoming four years of the "Vision into Action" plan, which included 5%-7% revenue growth, 16%-18% margins by 2013 and significantly higher levels of cash generation and returns;
- substantial rises in global equity markets; and
- the increased share prices of Cadbury's peers, on average by 12%.

* The majority of the consideration on offer comprised Kraft shares, which was unappealing given Kraft's unattractive business model and poor track record of delivery.

REASONS FOR MAKING THE INCREASED OFFER

Kraft believes that the revised recommended offer would deliver the following key benefits:

* accretion to earnings per share in 2011 of approximately US$0.05 on a cash basis; and

* a mid-teens return on investment, well in excess of Kraft's cost of capital.

Kraft believed that the increased offer was consistent with its commitment to maintain a financially disciplined approach and was well within the key criteria outlined in the announcement of a possible offer for Cadbury on 7 September 2009:

* accretion to earnings in the second year following completion on a cash basis (excluding the one-time costs to achieve synergies and expenses related to the transaction and the impact of non-cash items such as the amortisation of intangibles after acquisition);

* a return on investment in excess of Kraft's cost of capital within an acceptable timeframe;

* retention of Kraft's investment-grade credit rating; and

* maintenance of Kraft's dividend.

Following the combination with Cadbury, Kraft expected to revise its long-term growth targets to 5+% for revenue and 9%-11% for earnings per share, from its previously announced 4+% and 7%-9% respectively.

In addition, the acquisition was expected to enhance the quality of the enlarged group's earnings and create a business with strong discretionary cash flow generation and attractive revenue growth prospects across a diversified portfolio of brands and product groups worldwide.

MOVEMENT IN KRAFT'S SHARE PRICE SINCE ANNOUNCMENT OF INITIAL APPROACH

On 19 January 2010, Kraft set out details of what it described as recent short term adverse affects on its share price.

Since the announcement of its possible offer for Cadbury on 7 September 2009, Kraft believed its share price performance had been adversely affected by a number of factors of a short-term nature, including: (i) concerns that it would not maintain financial discipline regarding an acquisition of Cadbury; (ii) concerns that the issuance of Kraft shares to certain Cadbury shareholders could result in "flowback" of such shares; and (iii) short selling activity. Kraft believed that, following completion of the acquisition, these short-term pressures on its share price would dissipate.

By way of illustration, Kraft noted the following:

* Kraft had historically traded on a current year price earnings multiple broadly in line with that of the S&P 500 Index. Based on Kraft's own guidance for its 2009 diluted earnings per share of at least US$2.00, Kraft's historical 2009 price earnings multiple was 14.8 times as at 15

January 2010 (the last business day prior to the announcement of the increased offer). The historical 2009 price earnings multiple of the S&P 500 Index was 24.4 times as at the same date;

* between 4 September 2009 and 15 January 2010, Kraft's share price had increased by approximately 5.3% from US$28.10 to US$29.58. However, the S&P 500 Index had increased by approximately 11.8 % over the same period;

* analysts' consensus price target for Kraft shares was US$32.67, and 92% of Kraft's existing analyst recommendations were either a "buy" or a "hold"; and

* Kraft shares had a dividend yield of approximately 4%.

REASONS FOR RECOMMENDING THE INCREASED OFFER

The Cadbury Board believed that the increased offer represented good value for shareholders. The Board also stated that it was pleased with the commitment that Kraft had made to its heritage, values and people throughout the world. The Board stressed that it would work with Kraft's management to ensure the continued success and growth of the business for the benefit of customers, consumers and employees.

SYNERGIES

Kraft published the following details of what it expected to gain in the form of synergies:

1) On publication of the revised increased offer on 19 January 2010

The combination of Kraft and Cadbury was expected to provide the potential for meaningful revenue synergies over time from investments in distribution, marketing and product development. In addition, it was expected that pre-tax cost savings of at least US$675 million annually could be realised by the end of the third year following completion. Total one-off implementation cash costs of approximately US$1.3 billion were expected to be incurred in the first three years following completion.

Both Kraft and Cadbury had implemented extensive cost-saving and operating efficiency programmes in recent years and had already delivered significant margin improvement and revenue growth improvements. These annual cost savings were still expected to be achieved over and above the existing performance improvement plans at each of Kraft and Cadbury (including Cadbury's updated "Vision into Action" programme). While it was anticipated that these targeted savings would continue to be delivered, Kraft believed that the enlarged group would be capable of achieving substantial further cost savings through economies of scale and procurement benefits, general and administrative cost savings and marketing and selling costs savings.

2) On publication of the initial offer

Kraft had believed there was a significant opportunity to realise pre-tax cost savings of at least US$625 million annually. Total one-off implementation cash costs of approximately US$1.2 billion were expected to be incurred in the first three years following completion.

The expected sources of these forecasted annual pre-tax cost savings were:

* potential operational cost savings of US$300 million per annum resulting from efficiencies and economies of scale in the areas of procurement, manufacturing, customer service, logistics and research and development;

* potential general and administrative cost savings of US$200 million resulting from efficiencies in the areas of central, regional and country level administrative expenses; and

* potential marketing and selling cost savings of US$125 million resulting from efficiencies and economies of scale in the areas of marketing, media and selling expenses.

COMMENTATORS' REACTION

Although the timing of Kraft's approach came as a surprise, several commentators had been expecting a tie-up between Kraft and Cadbury since Mars' takeover of Wrigley in 2008. It was remarked how that transaction had fundamentally changed the landscape of the confectionery sector, giving the combined group a 14.5% global market share, overtaking Cadbury (which commanded around 10%). Moreover Cadbury had been considered vulnerable to a takeover ever since it demerged its Schweppes drinks division in the same year, as it had shed arguably the most unattractive part of its business. If Kraft and Cadbury were to merge, the combined group would be able to reclaim Cadbury's number one position, albeit by a slender margin (one source expected the combined group to have 15% of the market, compared to Mars' 14.5%). However more than one analyst suggested that Kraft needed a deal more than Cadbury did. Kraft had been struggling for growth, as it was over-reliant on mature markets, and had recently frozen its dividend for the first time in years (its dividend yield of 4% had been one of the main attractions of the Kraft share). Cadbury on the other hand was regarded as a relatively strong business that was weathering the recession rather well. Despite already being the UK's market leader, it had increased UK chocolate sales by 12% in the first half of 2009, and it had undertaken a cost savings programme that was expected to bring its margins up in line with its competitors.

Regardless, the rationale of the a merger between Kraft and Cadbury was regarded as strong. Cadbury would bring Kraft a very strong emerging market presence, which Kraft had previously been lacking - for example Cadbury's annual revenues in India were £240 million, whilst Kraft had a negligible presence in the country. Kraft would be able to exploit Cadbury's marketing and logistics operations in these high growth regions as a new route to market for its existing products. One analyst calculated that the combined group would be some 70% larger than its nearest rival in emerging markets. In addition the two groups had complementary sales channels - Kraft's products were predominantly sold in supermarkets and grocery stores (which had lower margins), whilst Cadbury had a strong presence in petrol stations and corner shops (where "impulse" buying meant that higher margins could be charged). If Kraft could get its products on sale alongside those of Cadbury, it might see a significant boost on margins. Moreover observers expected that Kraft would have a strong chance of achieving the US$ 625 million of synergies targeted at the time of the approach, given that it had comfortably delivered on the synergy targets from its acquisition of the biscuit group LU in 2007 (for US$ 7.2 billion).

However analysts agreed that Kraft would have to pay more than its opening gambit of 745 pence per share, which they considered to undervalue Cadbury. Many analysts fixed their sights on the valuation benchmark set by the Mars/Wrigley deal, which took place at 32 times earnings and 3.7 times sales. The 745 pence approach valued Cadbury at just 2 times sales and 20 times earnings. However it was noted that the Wrigley buyout took place in a completely different economic environment, before the global financial crisis. A representative of Kraft made a statement tackling the Mars/Wrigley valuation conundrum, declaring that the world had changed dramatically since then and that Cadbury was only worth what people were willing to pay for it. Indeed analysts' opinions varied on what a good price for Cadbury would be, with some putting its valuation at 800 pence, some at 850 pence, and others going as high as 900 pence. However the high profile investor Warren Buffett, whose Berkshire Hathaway vehicle owned more than 9% of Kraft, told the press that Kraft had "a lot to do" to justify even the 745 pence initial approach. Indeed, there were concerns that even at this level Kraft might be taking on too much debt, whilst Cadbury's £480 million pension deficit would only add to Kraft's existing £3 billion pension shortfall.

Kraft's approach was certainly expected to flush out rival bidders, given that Cadbury was seen as the last major confectionery company that was a viable takeover target. At first, Nestle was seen as the most likely competing bidder, although it would have faced sizeable competition issues. Hershey was suggested as a possible bidder, although it possibly lacked the financial clout to make a bid by itself, as a cash offer would cripple it with debt whilst Hershey's controlling shareholder Hershey Trust was likely to oppose a share for share element, as it would over-dilute the Trust's controlling stake. Analysts considered that a joint bid with another company would make more sense, and the possibility of a Hershey/Nestle offer was mooted, with Nestle taking the gum business and Hershey the chocolate business. However at the start of October 2009 sources close to Nestle suggested that it was "very unlikely" to make an offer. Unilever, which would certainly have had the financial capacity for a counter offer, also ruled itself out at the start of November.

By the time Kraft formally launched its initial offer on 9 November 2009, no other suitor had been forthcoming and speculation had died down. One observer described Kraft's strategy as "a long and patient siege", the hope being that Cadbury's shareholders would give in once they realised that no higher offer was on the table. Indeed, some commentators began to ask how far the Cadbury share would fall if the offer failed and how long before it recovered to the level of the offer price. One analyst predicted that the share price would fall back to 600-650 pence, although others were more confident in Cadbury's prospects, especially after the Cadbury Board put forward its defence case on 15 December 2009, which predicted growth of 5-7%, and enhanced profit margins of 16-18% by 2013 (much higher than most investors' expectations). However some analysts regarded such targets as stretched and difficult for Cadbury to achieve on a standalone basis. Irrespective of such arguments, most analysts agreed that Kraft's initial offer (valued at 717 pence) was rather low and was very unlikely to succeed. One analyst argued that this was clearly not Kraft's final offer, which would have to be at least 800 pence per share. Indeed another analyst predicted that an offer at 800 pence would have a 50% chance of success, whilst every 10 pence on top would increase its chances by 5%.

Key to the offer's success, and the price Kraft needed to pay, was the composition of Cadbury's shareholders. It was noted that almost half of Cadbury's shareholders consisted of US investors, who were unlikely to have any sentimental feelings about a British institution being taken over by an American giant. Moreover Cadbury's shareholder base was very fragmented, which made it easy for arbitrage funds to build up stakes in Cadbury. Such funds would have a very short-term outlook, and would favour quick gains over any arguments by Cadbury about its potential long-term value. According to one observer even pension funds and other long-only investors would be eager to sell in order to recoup money lost in the recent financial crisis. A representative of an asset manager that owned a 1.05% stake told the press that his company would be willing to accept 820 pence per share, despite the fact that his valuation was closer to 890 pence. The representative's attitude was that Kraft did not have to give away all of the value of the deal's synergies to Cadbury's shareholders. It was reported that Cadbury's largest shareholder Franklin Mutual Advisers (with 7.7%) was willing to accept 830 pence. Accordingly commentators anticipated that Cadbury would be in a strong position if it could increase its offer.

On 18 November 2009, both Hershey and Ferrero publicly declared their interest in Cadbury. As noted above, Hershey was regarded as unable to make an offer on its own, whilst Ferrero (with revenues of €6 billion) would also be unlikely to be able to finance a full offer itself. Sources indicated that both groups had held tentative discussions regarding a joint offer. Doubtless Hershey would be eager to avoid being squeezed out of the market by the two newly merged Kraft/Cadbury and Mars/Wrigley groups, whilst Ferrero would view Cadbury's geographic footprint as highly complementary - Hershey generated 65% of revenues from France, Germany and Italy, countries where Cadbury had a limited presence in chocolate. According one analyst's calculations, a combined Hershey/Ferrero/Cadbury would be a clear market leader, commanding 19.3% of the global confectionery market. However it was unclear how any tie-up would work, and which businesses would go to which bidder.

After Kraft announced its final offer of 840 pence, analysts now regarded any possible bid from Hershey or Ferrero as dead in the water. They considered that Kraft had played its hand rather shrewdly, as it had drawn out the bidding process, giving hedge funds (who were now reported to own 20-30% of Cadbury) and other US institutional shareholders time to amass a large number of shares in the company. Some shareholders publicly declared satisfaction with the offer price and declared that they would not accept the offer, most notably Legal & General Investment Management, the owner of an approximate 5% stake. Some analysts agreed with such shareholders, as the 13 times EBITDA multiple was lower than most recent takeovers in the food industry. However at least one analyst considered that the 50% plus premium offered over Cadbury's undisturbed share price was a very good one by any measure, whilst another described the price as "reasonable" though not "stellar", adding that the EBITDA multiple was higher than the 12.7 times EBITDA Cadbury paid for the Adams gum business in 2002. In fact Warren Buffett again came out against what he saw as a "bad deal", complaining that Kraft was worth more than its prevailing share price, which meant that it was using what he saw as "undervalued currency" to pay for the transaction. Furthermore the ratings agency Moody's stated that it would normally have downgraded Kraft after the increased offer, but it would wait to see if the combined group's earnings and cash flow would be enough to pay down its debt.

Subsequent to the offer, Cadbury's departing Chairman Roger Carr expressed some forthright opinions about the events that had taken place. He described the transaction as a "bear hug", whereby Kraft had purposefully drawn out the offer period to wear down Cadbury and its shareholders. He complained that takeover rules on offer timetables had enabled a "phoney war" between the approach and the formal offer, in which Kraft had been given time to sound out Cadbury's shareholders to see how amenable they would be to an offer. He also questioned the role of hedge funds, claiming that in January 2010 they had increased their stake from around 5% to 30% within just a few weeks, effectively giving the Board no choice other than to recommend Kraft's increased offer. Mr Carr called for regulations freezing the voting rights of any shareholders who purchased shares in an offer period until the end of that offer period, as well as the required acceptance threshold being raised from 50% to 60%. However one observer downplayed the role of hedge funds, making the point that 70% of Cadbury's shareholders were not hedge funds and most of these had accepted the offer.

TAKEOVER PANEL'S REACTION TO SOMERDALE CLOSURE

Rule 19.1 of the Takeover Code decreed the following:

"Each document or advertisement published, or statement made, during the course of an offer must be prepared with the highest standards of care and accuracy and the information given must be adequately and fairly presented."

With plans for Somerdale's closure already in place, the Cadbury's management had decided to move many of its production lines to a new facility in Poland. Kraft, however, considered that it would maintain Somerdale for the manufacture of Cadbury's UK products and instead use the new Polish facility for its continental European operations.

Prior to the announcement of the recommended offer, the Takeover Panel accepted that Kraft's lack of access to Cadbury's management meant that any plans to keep Somerdale operational were a statement of belief based on publicly available information. However once Kraft gained access to Cadbury's management, it became aware that the closure plans were further advanced than Kraft had previously been aware of.

Therefore whilst the Panel conceded that Kraft initially held an "honest and genuine belief" that it could maintain Somerdale, the Panel censured Kraft for making such a claim without access to detailed information.

Furthermore, the Panel criticised Kraft for not "taking mitigation action" once it gained access to Cadbury's management and learned that the closure plans were well advanced. The Panel stated that, prior to the announcement of the recommended offer, Kraft had not taken the opportunity to seek further information or established whether the closure could be reversed.

In accordance with Note 1 on Rule 19.1, the Panel also highlighted the role played by Lazard. As Kraft's lead financial advisers, it was Lazard's responsibility to ensure that all statements made regarding Somerdale had a reasonable basis.

Lazard had conducted its own independent due diligence from various public sources and taken into account Kraft's own industrial knowledge on the matter. However, in light of the prominence of the issue and the significance of Kraft's statements, the Panel ruled that Lazard should have made further enquiry of Kraft regarding the basis of its belief.

Despite this, Lazard was not subject to public criticism from the Panel, which felt that the primary responsibility lay with Kraft.

ADVISERS

Lazard (led Jeffrey Rosen, Antonio Weiss, William Rucker and Peter Kiernan) acted as lead financial advisers to Kraft on this transaction, with Centerview Partners (led by Robert Pruzan), Citigroup (led by Leon Kalvaria), and Deutsche Bank (led by Nigel Meek) also providing financial advice. Goldman Sachs, UBS and Morgan Stanley & Co. acted as financial advisers to Cadbury on this transaction.

Payment Details

OVERVIEW

Kraft's initial unsolicited and revised recommended offers for Cadbury consisted of cash-and-shares offers, with a mix and match facility also available. According to Kraft's press release dated 19 January 2010, the increased offer terms valued each Cadbury at 840 pence and the entire issued and to be issued share capital of Cadbury (including options) at £11.9 billion (excluding a special dividend of 10 pence per ordinary share that was dependent on the offer being declared wholly unconditional). In contrast to the approach adopted by Kraft, it is the policy on the M&A Monitor database to value only the target's shares in issue at the offer price. Any "in-the-money" share options are typically valued at the difference between the offer price and their exercise prices. Therefore using this method, M&A Monitor has valued Cadbury's entire issued and to be issued share capital (including "in-the-money" share options and the effect of the special dividend) at £11.8 billion.

Kraft also disclosed that in the event of full acceptance of its revised recommended offer, it would issue 265 million new ordinary shares, representing 15% of the potential enlarged share capital of the company.

THE OFFERS

1) Initial offer

The terms of the initial unsolicited offer are outlined below:

for each ordinary Cadbury share	300 pence in cash; and 0.2589 new Kraft shares

2) Increased offer

The terms of the revised recommended offer are outlined below:

for each ordinary Cadbury share	500 pence in cash; 0.1874 new Kraft shares; and 10 pence by way of a special dividend

ADS EQUIVALENT OFFERS

Given that Cadbury's shares were also listed on the New York Stock Exchange in the form of depositary receipts, Kraft had offered the following terms to holders of Cadbury's American Depositary Shares ("ADS"):

1) Initial offer

for each Cadbury ADS   1,200 pence in cash; and
1.0356 new Kraft shares

2) Increased offer

for each Cadbury ADS   2,000 pence in cash;
0.7496 new Kraft shares; and
40 pence by way of a special dividend

N.B. each Cadbury ADS represented four ordinary Cadbury shares.

MIX AND MATCH FACILITY

Under the terms of the final offer, Cadbury shareholders would be entitled to elect to vary the proportions in which they received new Kraft shares and cash consideration, subject to off-setting elections being made by other shareholders. Providing there were sufficient off-setting elections for the new Kraft shares, Cadbury shareholders that elected for cash under the mix and match facility would receive 799 pence per Cadbury ordinary share or 3,195 pence per Cadbury ADS (in each case excluding the special dividend).

On 24 February 2010, Kraft provided the following information about the take up of this facility:

During {the allowed} period: (i) valid elections for additional New Kraft Foods Shares under the mix and match facility had been received in respect of 24,801,448 Cadbury Shares (including those represented by Cadbury ADSs); and (ii) valid elections for additional cash under the mix and match facility had been received in respect of 1,718,654 Cadbury Shares (including those represented by Cadbury ADSs).

Accordingly, valid elections received during this period: (i) for additional New Kraft Foods Shares were to be scaled down on a pro rata basis; and (ii) for additional cash would be satisfied in full, with the result that:

* Cadbury Securityholders who had made an election to receive additional New Kraft Foods Shares under the mix and match facility would receive 0.200386 New Kraft Foods Shares and GBP 4.793000 in cash per Cadbury Share and 0.801544 New Kraft Foods Shares and GBP 19.172000 in cash per Cadbury ADS, in each case in respect of which a valid election had been made; and

* Cadbury Securityholders who had made an election to receive additional cash under the mix and match facility would receive GBP 7.987148 in cash per Cadbury Share and GBP 31.948592 in cash per Cadbury ADS, in each case in respect of which a valid election had been made.

This data was preliminary only.

SPECIAL DIVIDEND

Under the terms of the increased offer only, Kraft had agreed for Cadbury shareholders to receive a special dividend of 10 pence per ordinary share upon the offer being declared wholly unconditional.

EQUITY VALUE CALCULATION

M&A Monitor has calculated an equity value for Cadbury on the basis of the following:

* The increased cash-and-shares offer terms for each ordinary Cadbury share;

* The closing price of US$29.58 per Kraft share on 15 January 2010[+], being the last US business day prior to the announcement of the offer[++];

* The special dividend of 10 pence per ordinary share;

* Cadbury's 1,373,872,386 ordinary shares in issue; and

* Cadbury's 47,555,570 "in-the-money" share options in issue as of 31 December 2008 (no more recent option/exercise price data was available), valued at the difference between their weighted average exercise price of 505.4 pence (as calculated by M&A Monitor) and the implied offer price (including the special dividend) of 850 pence per share.

[+] in the UK, the last business day prior to the announcement of the increased offer was 18 January 2010. In the US, this was a public holiday.

[++] to allow the M&A Monitor database to calculate an equity value for Cadbury in British pounds, this share price has been converted to £18.15 using an exchange rate of £1 : US$1.63, being the exchange rate provided in the press release announcing the increased offer.

N.B. the option information will be updated following the publication of Cadbury's 2009 annual report.

NET DEBT

Cadbury's net debt figure is stated as of 31 December 2009. This figure has been taken from the company's second defence document dated 14 January 2010 (see page 21 of the .pdf file) and is an estimated adjusted figure calculated as follows:

As at 31/12 £ million	2009
Estimated unadjusted net debt	(1,375)
Plus:	
- minority interests	20
Less:	
- book value of associates	(28)
- trade investments	(1)
- receivables from exercise of options	(100)
- receivable from shares held by Cadbury Schweppes Employee Trust	(11)
Estimated adjusted net debt as presented by Cadbury	(1,254)
Less:	
- minority interests	20
Estimated net debt per M&A Monitor	(1,234)

N.B. no adjustment has been made to this figure to take account of the cash outflow associated with the aforementioned special dividend because to make such adjustment would effectively "double-count" for the dividend payment, given that it has already been included within the equity value figure.

FINANCING

The cash consideration payable under the terms of the increased offer was to be funded from Kraft's own resources and from a new credit facility that had been arranged by a syndicate of banks[+] and/or proceeds from alternative financing sources.

Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and HSBC Securities (USA) Inc. acted as joint bookrunners and Citibank NA and Deutsche Bank AG Cayman Islands Branch as co-administrative agents. The credit agreement provided for borrowings by Kraft and certain subsidiaries that could be designated by Kraft in an aggregate principal amount of up to £5.5 billion.

Kraft expected to use borrowings under the credit agreement to refinance certain indebtedness of Cadbury and its subsidiaries and to finance the offer, to the extent that the cash consideration payable under the offer was not funded from Kraft's own resources and/or alternative funding sources. Borrowings under the credit agreement were also available for general corporate purposes of Kraft and its subsidiaries.

Under the credit agreement, Kraft guaranteed the obligations of any subsidiary borrower. Borrowings under the facility would bear interest at a variable annual rate based on (i) LIBOR for borrowings in pounds sterling; (ii) LIBOR or base rate, at the election of Kraft, for borrowings in US dollars; and (iii) EURIBOR for borrowings in Euros; plus in each case an applicable margin based on the credit rating at that time for the long-term senior unsecured indebtedness of Kraft.

The credit agreement required the maintenance of a minimum total shareholders' equity (excluding accumulated other comprehensive income or losses) of not less than US$23 billion, which minimum level would be increased, in the event of completion of the offer, by 75% of any increase in such total shareholders' equity as a direct result of the issuance by Kraft of equity securities to finance the acquisition of Cadbury or to refinance certain indebtedness. In addition, in the event that the long-term senior unsecured indebtedness of Kraft was rated below investment grade, the credit agreement required Kraft to maintain a leverage ratio of not more than 4.25 to 1.00. The credit agreement also contained customary representations, covenants and events of default and required the prepayment of advances and/or the permanent reduction of commitments under the facility with the net cash proceeds received from certain disposals, debt issuances and equity capital markets transactions.

[+] On 9 November 2009, Kraft entered into a new credit agreement for a senior unsecured term loan facility with Citibank NA, Citigroup Global Markets Inc., Deutsche Bank AG Cayman Islands Branch, Deutsche Bank AG London Branch, Deutsche Bank Securities Inc., HSBC Bank USA National

Association, HSBC Securities (USA) Inc., Barclays Bank plc, Banco Bilbao Vizcaya Argentaria, BNP Paribas, Credit Suisse AG Cayman Islands Branch, The Royal Bank of Scotland plc and Société Générale.

INDUCEMENT FEE

In accordance with the revised recommended offer, Cadbury had agreed to pay Kraft an inducement fee of £117.7 million if a competing offer for the company was announced prior to the lapsing of Kraft's offer, and such competing offer was recommended by the Cadbury Board or subsequently completed.

BID PREMIA/SHARE DATA PAGE

1) Basis of calculation

Bid premia figures on the M&A Monitor database are based on the closing share prices of a target company during a defined period or in relation to a defined date, rather than on the basis of weighted average prices of trades in a target company's shares during a defined period or on a defined date.

2) Pre-bid speculation date

The pre-bid speculation date of 4 September 2009 represents the last business day prior to Kraft's announcement that it was considering making a possible offer for Cadbury.

3) Share price source/currency

Cadbury's share prices have been sourced from the London Stock Exchange and are stated in British pounds. Kraft's share prices have been sourced from the New York Stock Exchange and are stated in British pounds. These share prices were originally stated in US dollars, but to allow the M&A Monitor database to calculate an equity value for Cadbury based on the share portion of the offer, they have been converted to British pounds using an exchange rate of £1 : US$1.63, being the exchange rate provided in the press release announcing the increased offer on 19 January 2010.

4) Dividend adjustment

Cadbury declared an interim dividend of 5.7 pence per share in respect of the six-months ended 30 June 2009, payable on 16 October 2009 to shareholders on the register on 18 September 2009. The Cadbury's share went ex-dividend on 16 September 2009. Therefore any share prices prior to this date have also been stated ex-dividend (i.e. adjusted downwards by 5.7 pence).

TARGET FINANCIALS

The limited figures in the "Target Financials" section have been taken from Cadbury's trading statement and defence document, both dated 14 January 2010.

The sources for each individual figure are shown below:

* Revenue of £5,975 million - sourced from the trading statement (page 3 of the .pdf file).

* Operating profit of £808 million - sourced from the trading statement (page 3 of the .pdf file) and defence document (pages 4 and 21 of the .pdf file).

* Depreciation/amortisation of £210 million - sourced from the defence document (page 21 of the .pdf file).

* EBITDA of £1,018 million - sourced from the defence document (pages 4 and 21 of the .pdf file)

Given the estimated nature of these figures, any transaction multiples generated in this report should be treated with caution.

N.B. this section will be updated on the publication of Cadbury's full results for the year-ended 31 December 2009. For reference, Cadbury's profit and loss account for the year ended 31 December 2008 has been reproduced in the "Target Details" section.

TRANSACTION MULTIPLES

According to Kraft's press release of 19 January 2010, the increased offer terms represented an enterprise value multiple of 13.0 times Cadbury's underlying EBITDA for the year ended 31 December 2009[+].

[+] The difference between this figure and M&A Monitor's EV/EBITDA multiple of 12.86 results from M&A Monitor valuing options at the difference between their weighted average exercise price and the offer price rather than at the full offer price (as was Kraft's approach) and also M&A Monitor's inclusion of the value of the special dividend in the offer value.

Target Details

OVERVIEW

Formerly known as Cadbury Schweppes, the Cadbury group became a stand-alone entity in May 2008 following the demerger of its American beverages business. Cadbury was a global confectionery company with a wide portfolio of chocolate, gum and candy brands. It had number one or number two positions in over 20 of the world's 50 largest confectionery markets, with a broadly spread emerging markets business. Cadbury commanded a market share of 10.5% in terms of global confectionery sales, making it the global number two. Overall, the group operated in more than 60 countries and employed some 45,000 staff. Cadbury was listed on the London and New York Stock Exchanges.

OPERATIONS

Cadbury classified its operations as follows:

* Chocolate

Cadbury's chocolate business was built on regional strengths, including strong market positions in the UK, Ireland, Australia, New Zealand, South Africa and India. The largest brand in chocolate was Cadbury Dairy Milk. Other key brands were Creme Egg, Flake, and Green & Black's. In 2008, the group had a 7.5% market share, making it the global number five in chocolate.

* Gum

Cadbury had a number 2 position in gum (with a 28.9% market share in 2008), Trident being the largest brand in the portfolio as well as the largest gum brand in the world. This position was built on strong market shares in the Americas, in Europe (including France, Spain and Turkey) and in Japan, Thailand and South Africa. Other major brands included Hollywood, Stimorol, Dentyne, Clorets and Bubbaloo.

* Candy

Halls was the largest candy brand in the world, and accounted for approximately one-third of Cadbury's candy revenues. Halls and other global, regional and local brands such as Maynards, The Natural Confectionery Co. and Cadbury Eclairs gave Cadbury the number 1 position in global candy (a fragmented market), with a 7.2% market share.

SEGMENT INFORMATION

The following is a breakdown of Cadbury's revenues according to geographical segment (continuing operations only):

Y/E 31/12 £ million	2008	2007
Britain, Ireland, Middle East and Africa	1,645	1,579
Europe	1,097	879
Americas	1,631	1,372
Asia-Pacific	1,002	860
Centralised operations	9	9
	-----	-----
Total	5,384	4,699

The following is a breakdown of Cadbury's revenues according to product type (continuing operations only):

Y-E 31/12	2008
Chocolate	46%
Gum	33%
Candy	21%

Total	100%

FINANCIAL PERFORMANCE

The following is a summary of Cadbury's financial performance for the years ended 31 December 2007 and 2008 (continuing operations only):

Y/E 31/12 £ million	2008	2007
Revenue	5,384	4,699
Trading costs	(4,746)	(4,226)
Share of results in associates	10	8
Operating profit	648	481
Investment revenue	52	56
Finance costs	(50)	(88)
Exceptional items	(250)	(195)
Pre-tax profit	400	254
Taxation	(30)	(105)
Post-tax profit	370	149
Profit/(loss) from discontinued operations	(4)	258
Profit for the year	366	407
Minority interests	(2)	(2)
Net profit	364	405

SOURCES

Kraft press release (07/09/09); (08/09/09); (09/11/09); (15/12/09); (05/01/10); (06/01/10); (19/01/10); (25/01/10); (27/01/10); (02/02/10); (09/02/10)
Cadbury press release (07/09/09); (12/09/09)
Takeover Panel press release (30/09/09)
Kraft SEC filing PREM14A (09/11/09)
Hershey press release (18/11/09); (22/01/10)
Ferrero press release (18/11/09); (25/01/10)
Kraft SEC filing DEFM14A (18/12/09)
EU Commission press release (06/01/10)
Cadbury results presentation (31/12/08)
Cadbury interim presentation (30/06/09)
Kraft presentation (07/09/09); (19/01/10)
Kraft factsheet (07/09/09)
Cadbury presentation (14/12/09)
Cadbury conference call transcript (14/12/09)
Kraft annual report 10-K (31/12/08)
Cadbury annual report (31/12/08)
Cadbury interim report (30/06/09)
Cadbury trading statement (14/01/10)
Kraft prospectus (04/12/09)
Kraft offer document (04/12/09)
Kraft ADS offer document (04/12/09)
Cadbury defence document (14/12/09)
Cadbury second defence document (14/01/10)
Kraft revised prospectus (19/01/10)
Kraft revised offer document (19/01/10)
Kraft revised ADS offer document (19/01/10)
Takeover Panel press release (26/05/10)

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textual sections, thus providing a "one-stop-shop" for deal specific information. Different sector and deal specific templates are used in order to enable the database to best reflect the individual characteristics of certain transactions (e.g. Public bids as opposed to Private transactions) and certain sectors (e.g. Banking as opposed to Industrial). The information used on the database for transaction analysis is sourced from original materials published by the parties to the transaction and regulatory bodies including additional information which comes into the public domain subsequent to completion of a transaction. Transactions are typically analysed by analysts with the necessary language skills or sector experience. M&A Monitor can be contacted on (+44) 20 8944 9700 and at enquiries@ma-monitor.co.uk