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BUSINESS | AUGUST 5, 2011

## Activists Pressed for Kraft Spinoff

By [GINA CHON](#), [ANUPREETA DAS](#) and [PAUL ZIOBRO](#)

After spending \$19 billion last year to buy Cadbury PLC, food giant [Kraft Foods Inc.](#) said it was splitting in two, a move that came as shareholders behind the scenes were advocating for a breakup.

The surprise announcement Thursday is an acknowledgment that Kraft, the world's second-largest global-food company by sales behind Nestlé SA, can't rev its shares by mixing together higher-growth brands such as Cadbury chocolate with refrigerator staples such as Oscar Mayer lunch meats and Jell-O desserts.



In a surprise move, Kraft is breaking itself into two businesses, with grocery staples on one side and candy and cookies in the other. Deal Journal's Shira Ovide

A bigger-is-better approach was a hallmark of Kraft chief executive [Irene Rosenfeld](#), who just 18 months ago told investors that "scale is a source of great competitive advantage."

She took a different view Thursday, selling a plan to separate the company's snacks and grocery businesses as a way to instill "focus" that will "provide even greater opportunities."

The timing of the move caught many on Wall Street and in the industry off guard. Investors appeared to give some support to the plan, pushing Kraft shares up higher for most of the day. But the stock couldn't overcome the day's deep market rout, and closed down 56 cents to \$33.74.

Kraft's share performance for the past year or so has lagged behind peers such as Nestlé, and Groupe Danone SA. According to people familiar with the matter, Kraft had been working toward the breakup for some time, but made the decision now in part to get ahead of at least one investor, [Nelson Peltz's](#) Trian Fund Management LP.

outlines how the break up may impact the company.  
(Photo: Reuters.)

## Calling It Splits

Several companies have announced plans to split themselves apart in recent months.



Bloomberg News

Trian had been considering publicly laying out in September the case for a separation of the two businesses, these people said.

Trian's next public filing regarding its Kraft holdings, which will be submitted in about a week, is expected to show a substantial increase in its stake, people familiar with the matter said. As of Trian's last filing, the firm owned less than a 1% stake in Kraft.

In an interview Thursday, Ms. Rosenfeld said investor pressure didn't factor into the timing of Kraft's decision.

A spokesman for Kraft said Thursday that "We have been evaluating this type of transaction over the past several years, and analysts and investors have also suggested this. Creating two strong independent operating entities was not feasible before today. Based on actions we have taken over the past four years, it's an idea whose time has come."

"It doesn't make a difference whose idea it is," said a person familiar with Trian. "The most important issue is they are doing the right thing."



Associated Press

Oscar Mayer is among Kraft's brands. Above, a Kansas event in 2007.

Another activist investor with Kraft shares, Bill Ackman's Pershing Square Capital Management, also had discussions with Kraft's management on a split of the company, according to people familiar with the matter. The break-up plan also has the support of billionaire investor [Warren Buffett](#), whose conglomerate [Berkshire Hathaway Inc.](#) as of March 31 was company's largest shareholder with about 6%.

Under the proposed split, Kraft's European business and developing-markets units, as well as snacks and confectionery businesses in North America, will make up the global snacks business. With about \$32 billion in estimated revenue, it will house, among other brands, Oreo cookies, Cadbury chocolates and Trident gum, which are seen as having strong growth

prospects in emerging markets.

The other company will hold the North America grocery business, which includes Kraft cheeses, Maxwell House coffee, Oscar Mayer cold cuts and Jell-O. That company, expected to be a dividend-payer, lacks the same growth potential but comes with stronger margins and more-reliable sales. It will have an estimated \$16 billion in revenue.

## Kraft's Plan

[CEO Spent Billions Preparing to Dismantle](#)

[Kraft's Twisted Family Tree](#)

[Heard: Kraft's Work Still Cut Out](#)

[CEO: Kraft Started Considering Split in 2007](#)

[Deal Journal: Big Win for the Bankers](#)

"The big idea for us is to recognize that these are two very different portfolios that

[Read Kraft's statement about separating its snacks and grocery operations](#)

[Breaking Down the Breakup](#)

[Buffett on Board with Kraft Breakup](#)

[Recap: Live blog of Kraft conference call](#)

[Deal Journal: The Long, Strange History of Kraft Foods](#)

[Deal Journal: Ackman Makes Killing on Kraft](#)



Associated Press

Shelves of Nabisco brand products, all part of the Kraft Foods family of brands and products, are seen at a Ralphs Fresh Fare supermarket in Los Angeles in February.

we believe can benefit with a focused mandate," Ms. Rosenfeld said on a conference call Thursday.

Breaking up the company could allow Kraft's businesses to bulk up on their own by pursuing acquisitions of smaller food makers such as [ConAgra Foods Inc.](#), which recently made a so-far unsuccessful bid to buy

## [Ralcorp Holdings Inc.](#)

Such deal-making may be less likely to raise antitrust concerns in the U.S. than it might have if the company remained intact, people familiar with the matter said.

Kraft says the deal won't generate too many duplicate expenses, even in, say, deliveries to similar customers like [Wal-Mart Stores Inc.](#) Kraft's snack business primarily reaches retailers through direct-store-delivery, with Kraft deliverymen placing products onto the shelves.

Grocery products, meanwhile, are primarily shipped to stores from warehouses. "There's not a lot of overlap in selling and distribution between our two businesses," said Ms. Rosenfeld.

The move is unlikely to weaken Kraft's leverage with major food retailers or significantly affect how much shelf space it gets for its cheese products and other foods, analysts and industry observers said, noting the grocery business's dominant market shares in many categories.

A Kraft spokesman said Ms. Rosenfeld is expected to remain in a leadership position following the split but her role hasn't been decided. The names of the businesses and management teams are currently undecided, though both companies are expected to be headquartered in the Chicago area.

The split is expected to be conducted before the end of next year.





Markets report: General Motors saw its profits double in Q2 thanks to strong performances overseas. Also, Kraft is going to be broken up into two companies. And, jobless figures remain elevated. Steve Russolillo joins the News Hub to explain.

## A Closer Look at the Brands

### Global snacks division

Annual revenue: \$32 billion

- Oreo
- LU biscuits
- Cadbury
- Milka chocolates
- Trident gum
- Jacobs coffee
- Tang powdered beverages

### North American grocery business

Annual revenue: \$16 billion

- Kraft macaroni and cheese
- Oscar Mayer meats
- Philadelphia cream cheese
- Maxwell House coffee
- Capri Sun beverages
- Jell-O
- Miracle Whip

Source: the company

Kraft had previously contemplated separating the businesses but put the idea on hold in 2009, when it made an unsolicited offer to buy Cadbury. In September 2009, the company said: "Cadbury's brands, which are highly complementary to our portfolio, would benefit from Kraft Foods' global scope and scale and array of proprietary technologies and processes."

Some investors and analysts have been concerned that Kraft wasn't realizing either cost or revenue benefits from the Cadbury deal as expected, even though they had cheered it as boosting Kraft's global presence.

Ms. Rosenfeld said Thursday that once Kraft had bought Cadbury along with Danone's LU Biscuits, and thought about the future "it was clear we had very different businesses in the portfolio." And it made sense to set them free from each other, she said.

Some time after the Cadbury deal closed in February 2010, Ms. Rosenfeld revisited the idea of creating two separate entities and engaged bankers from Centerview Partners, [Evercore Partners](#), and [Goldman Sachs Group Inc.](#) to start working on a spin-off, the people said.

The Cadbury deal, people familiar with the matter said, helped give the snacks business enough heft to stand alone.

Kraft also on Thursday reported second-quarter earnings, with sales rising 13% as the company benefited from raising prices higher and sooner than peers to fend off inflation fears. The better-than-expected results also led Kraft to raise its sales and earnings outlook for the year. Kraft reported a profit of \$976 million, or 55 cents a share, up from \$937 million, or 53 cents a share, a year earlier.

—David Kesmodel, Shira Ovide and Serena Ng contributed to this article.

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