Mars to Buy Pringles Maker Kellanova for $36 Billion in 2024's Biggest Deal

NEW YORK, Aug 14 (Reuters) - Family-owned candy giant Mars is buying Cheez-It maker Kellanova (K.N), opens new tab in a nearly $36 billion deal, bringing together brands from M&M's and Snickers to Pringles and Pop-Tarts in the year's biggest deal to date.

Mars said on Wednesday it will pay $83.50 per share for Kellanova (K.N), opens new tab, representing about a 33% premium to its closing price on Aug. 2 before Reuters first reported that Mars was exploring a deal for the maker of frozen breakfast foods, such as Morningstar Farms and Eggo.

The deal is a bet on consumers continuing to indulge in branded snacks, and comes as packaged food companies face stalling growth after years of price hikes to cover sky-rocketing inflation.

The combined company aims to hold prices steady, said Mars CEO Poul Weihrauch in an interview with Reuters Wednesday, and not pass on costs from the deal to consumers.

"We are a big and stronger company," Weihrauch said. "We hope to be able to absorb more costs in our structure and help alleviate the issues we have in an inflationary environment."

Food prices in the United States increased roughly 25% from 2019 through 2023, far more than other categories such as housing and medical care, according to data from the U.S. Department of Agriculture. But inflation has started to moderate, according to the U.S. consumer price index data released Wednesday.

Consumers in the United States and Europe - major markets for both companies - have been looking for cheaper alternatives or ditching brands for cheaper private label goods.

Kellanova has seen private label encroach on its market share for cereal in Europe and other areas, said CEO Steve Cahillane. The company sells sweet cereals such as Smacks, Frosties and Coco Pops in Europe, according to securities filings.

The U.S. packaged food sector is seeing robust dealmaking as companies seek scale to weather the impact of inflation-weary consumers cutting back and shifting their purchases to private label brands.

"We think an environment more conducive to deal-making could also encourage some of the large-cap packaged food names within the industry to shift their focus away from portfolio cleanup and divestiture efforts and towards a more offensive, acquisition-led posture with a focus on growth," Barclays analysts wrote in a note on Wednesday.

Investors are also worried about a decline in sales from the greater adoption of drugs such as Ozempic and Wegovy for weight loss, which curb appetites and lead to feelings of fullness.

Weihrauch said half of the company's portfolio will be "wholesome" snacks such as low-calorie Special K, Kind bars and Nutri-grain.

Unlike competitor Nestle (NESN.S), opens new tab, Mars has no plans currently to develop new products specifically for people using the weight-loss drugs, Weihrauch said.

Mars said it plans bolster its snacking division, invest locally and introduce more healthy options through the deal, as the category is "attractive and durable."

The company has a 4.54% share of the U.S. snacking market, while Kellanova holds about 3.9%, according to data from GlobalData, well behind market leader PepsiCo (PEP.O), opens new tab.

Kellanova sells noodles in Africa, though the business has faced hurdles due to the continent's economic struggles.

Cahillane said Kellanova's distribution network in Africa offers Mars an opportunity to take its candy to the continent. Mars' presence in China offers an "enormous" opportunity for Pringles, Cahillane said.

MARS' BIGGEST-EVER BET

The acquisition, which dwarfs Mars' $23-billion takeover of Wrigley in 2008 and is one of the biggest deals ever in the packaged foods industry, is not expected to face too many antitrust roadblocks due to the limited overlap in the offerings of the two companies, legal experts had told Reuters.

After the completion of the deal in the first half of 2025, Kellanova will become a part of Mars Snacking, led by Global President Andrew Clarke, the companies said. It will be based in Chicago. Cahillane, a veteran of the packaged food and drinks industry who previously held positions at Coca-Cola (KO.N), opens new tab, said he would be leaving the combined company when the deal closes.

In a regulatory filing, Kellanova said the closing date for the deal could be extended by up to 12 months, if the companies do not receive the necessary regulatory approvals by August 2025.

Shares of Kellanova rose about 8% to $80.25 in early trade. Excluding debt, the deal values Kellanova at $28.58 billion, based on its outstanding share count, according to Reuters calculations.

Kellanova, which split from WK Kellogg (KLG.N), opens new tab last October, is rooted in a salty snacks business and sells cereal outside of North America. WK Kellogg was left with the North American cereal business of Kellogg, the original parent company.

Since the separation from WK Kellogg, Kellanova's shares have traded at a discount to peers such as Hershey (HSY.N), opens new tab and Mondelez International (MDLZ.O), opens new tab, which made the company an acquisition target.

Investment firm TOMS Capital Investment Management, which had taken a "significant" stake in Kellanova earlier this year and was in talks with the company to improve shareholder returns, is happy with the deal price, according to a person familiar with the matter. TOMS declined to comment.

Under the terms of the deal, Mars will have to pay a termination fee of $1.25 billion in case of failure to obtain regulatory approvals, while Kellanova will have to pay $800 million to Mars in case of a change in board recommendation.

Mars intends to finance the deal through cash and a debt financing commitment of $29 billion from JPMorgan Chase and Citi.

Citi and law firm Skadden, Arps, Slate, Meagher & Flom advised Mars. Goldman Sachs and Kirkland & Ellis advised Kellanova, while investment bank Lazard advised Kellanova's board of directors.

Reference: https://www.reuters.com/business/retail-consumer/snickers-maker-mars-pay-8350-per-share-kellanova-wsj-reports-2024-08-14/