

The New York Times

DealB%k

Edited by Andrew Ross Sorkin

August 4, 2011, 6:00 am

Kraft to Split Its Snacks and Grocery Businesses

By ANDREW ROSS SORKIN and CHRIS V. NICHOLSON

Clockwise from top left, Matt York/Associated Press, Daniel Acker/Bloomberg, Daniel Acker/Bloomberg, Tim Boyle/Getty Images, Peter Thompson for The New York Times, Frank Polich/Reuters and Associated Press Kraft Foods plans to spin off its North American grocery business, top row, from its global snacks group, bottom row.

7:39 a.m. | Updated Kraft Foods said on Thursday that it would spin off its North American grocery business from its global snacks group, a decision that comes 18 months after it bought Cadbury, the European candy maker.

The company said the snacks business would focus on “fast-growing developing markets and in instant consumption channels,” while the North American business would continue to develop the brands distributed through more traditional grocers.

“We have built two strong, but distinct, portfolios,” the chief executive, Irene Rosenfeld, said in a statement. “Our strategic actions have put us in a position to create two great companies, each with the leadership, resources and strong market positions to realize their full potential.”

The split is happening at a point of strength for the company. In [its earnings announcement](#) on Thursday, the company raised its outlook for the year, saying that organic net revenue should increase at least 5 percent in 2011, up from a previous growth estimate of 4 percent. Kraft now forecasts operating earnings of \$2.25 a share or more; it had previously anticipated \$2.20 a share for this year.

In the second quarter, Kraft posted net revenue of \$13.9 billion, up 13.3 percent from the period a year earlier, and earnings increased 3.8 percent, to 55 cents a share, as the company benefited from what Ms. Rosenfeld called a “virtuous cycle.”

“We’re successfully managing higher input costs through pricing and productivity,”

she said, “and we’re well-positioned to continue our momentum and take the next step in our transformation.”

While Kraft will continue to work out the structure, management and other details of the new businesses in the next year, on Thursday it outlined the broad strokes of the split, which the company hopes to complete by the end of 2012.

The new snacks company will combine units in Europe and the developing markets as well as the North American snacks and confectionery businesses. Annual revenue for the group — which will include brands like Oreo, Cadbury, Milka, Tang and Trident — is expected to be \$32 billion, with three-quarters coming from international operations and 42 percent from emerging markets.

The North American spinoff should have about \$16 billion in annual revenue from Kraft’s cheese, beverage and meals businesses. Its portfolio will include products like Maxwell House coffee, Philadelphia cream cheese and Jell-O.

“The global snacks business has tremendous opportunities for growth as consumer demand for snacks increases around the world,” Ms. Rosenfeld said. “The North American grocery business has a remarkable set of iconic brands, industry-leading margins and the clear ability to generate significant cash flow.”

Kraft hired Centerview Partners, Evercore Partners and Goldman Sachs as its financial advisers.