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Buffett warns Kraft on Cadbury offer



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On Tuesday January 5, 2010, 12:04 pm EST

By Jessica Wohl

CHICAGO (Reuters) - Warren Buffett's Berkshire Hathaway Inc (NYSE:BRK-A - News) issued a stern warning to Kraft Foods (NYSE:KFT - News) Chief Executive Irene Rosenfeld, saying it opposed the food maker's plan to float new shares in pursuit of Cadbury Plc (LSE:CBRY.L - News).

It was the strongest statement yet by Berkshire questioning Kraft's hostile 10 billion pound cash and stock offer for the UK confectioner. Berkshire is Kraft's single largest shareholder, with a 9.4 percent stake in its own holdings and its pension funds.

Kraft shares rose 3.5 percent after the Berkshire statement, while Cadbury fell 3.3 percent on concerns opposition by Buffett would severely constrain a deal.

Berkshire said it voted against Kraft's proposal to issue up to 370 million shares to help the food maker buy Cadbury, but could reverse to a "yes" vote, depending on the final offer's details. Berkshire declined to elaborate further about the statement.

It said the proposal, if carried out, would give Kraft a "blank check" allowing it to change its offer for Cadbury.

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CBRY.L	779.00	-26.00
KFT	28.35	+0.92

Earlier on Tuesday, Kraft raised the cash portion of its offer to Cadbury shareholders, helped by a \$3.7 billion deal to sell its North American frozen pizza business to Nestle. Kraft cited in part concern by its own investors over using undervalued company shares as currency.

"We worry very much that, indeed, there will be an additional change from the revision announced this morning," Berkshire said in its statement.

Buffett had already warned Kraft against paying too much for Cadbury, and investors said the new statement was a clear signal to Rosenfeld to tread carefully.

"If Buffett votes against something -- that carries a great deal of weight with other shareholders," said Jerry Bruni, CEO and portfolio manager of J.V. Bruni and Co, which holds Berkshire shares. "When he says no, no is what he says and means."

KRAFT'S ROOM TO MANEUVER

But some shareholders said the statement leaves Rosenfeld with room to maneuver.

"I don't think he's throwing a monkey wrench in the deal. This is Warren Buffett 101," said Frank Betz, a principal at Carret Zane Capital Management LLP and an owner of Berkshire shares who has played bridge with Buffett.

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"He's often used the representation that one certainty is that people are going to continue to want to eat Dilly Bars," Betz said, referring to Dairy Queen ice cream bars. "By golly, if they are going to want to be eating dilly bars far into the future they are sure going to want to be eating Cadbury milk chocolate."

A Kraft spokeswoman said the company agrees its shares are "deeply undervalued," would remain disciplined and would not do anything that hurts shareholder value.

"He is our largest investor and one of the most respected investors in the world so of course we take his opinion seriously," she said of Buffett.

Berkshire said it does not believe any Kraft shareholder should vote "yes" to the proposal without knowing what they are voting for. However, it said that it would change its own vote from "no" to "yes" if, after seeing the final offer Kraft is expected to present later this month, it concludes that the offer does not destroy value for Kraft shareholders.

Back in September, Buffett warned Kraft not to overpay for Cadbury, saying: "Any time you're in a takeover, animal spirits run high and all of that. But Kraft has the disadvantage of using an undervalued stock."

"Using undervalued shares does make the deal more expensive," said Morningstar analyst Erin Swanson. "So while we agree with that, Berkshire's vote may not be enough to block a deal for Cadbury. It is definitely a pointed message about the unfavorable position that Berkshire holds regarding Kraft's pursuit of the confectionary firm."

(Additional reporting by Michael Erman and Lilla Zuill in New York, Jessica Hall in Philadelphia and Aaron Pressman in Boston; Editing by Michele Gershberg and Tim Dobbyn)

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