Markets

Mars to Purchase Snack Maker Kellanova in $36 Billion Deal

- Offer represents a 33% premium over Kellanova's Aug. 2 price
- Kellanova has outshined rivals since cereal business spinoff

WATCH: Mars is buying Kellanova for $36 billion. *Source: Bloomberg*

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August 14, 2024 at 5:11 AM GMT+2
Updated on August 14, 2024 at 4:03 PM GMT+2

Mars Inc. agreed to buy Kellanova for nearly $36 billion including debt, bringing together two major food companies in the biggest deal of the year.

Mars will pay $83.50 a share in cash for the maker of Pringles chips and Eggo waffles, the companies said in a statement on Wednesday. The price represents a premium of 33% over Kellanova's closing price on Aug. 2, the last business day before the talks were initially reported.

Bloomberg Intelligence
Mars to Purchase Kellanova

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The packaged-food industry has been grappling with declining volumes, slowing growth and a weakening global consumer. Companies are looking to innovation and new markets to bolster sales as shoppers start to push back on price hikes – a trend that could lead to further consolidation.

Mars' acquisition "would be the largest packaged-food deal in nearly a decade and could spur more M&A in the sector," wrote Bloomberg Intelligence analyst Jennifer Bartashus.

Kellanova shares rose 7.4% to $80 in New York trading at 10:00 a.m. The stock has jumped 33% this year through Tuesday's close.

Kellanova is faring better than most of its competitors with a string of strong earnings since it spun off the cereal business as WK Kellogg Co. late last year. Earlier this month, Kellanova raised its guidance for the full year as new products and marketing drove sales in the second quarter.

The deal price includes about $6 billion in debt, according to Bloomberg calculations. Top Kellanova shareholder W.K. Kellogg Foundation Trust and the Gund Family, which collectively represent 20.7% of the company's stock, have committed to vote for the deal, the companies said. It's expected to close in the first half of next year.

Kellanova CEO Steve Cahillane will exit the business after the deal closes, he said in a joint interview with Mars CEO Poul Weihrauch.

Since 2020, closely held Mars has bought brands like Hotel Chocolat, Tru Fru and snack bar maker Kind's North America business. The company's last major deal was in 2017 when it bought veterinary hospital operator VCA Inc. for about $9 billion.

An advertisement for Pringles chips in Palma de Mallorca, Spain. *Photographer: Andrey Rudakov/Bloomberg*

Buying Kellanova will help Mars diversify its chocolate-heavy portfolio away from cocoa, whose prices have risen to historic levels this year. Though the early signs of crops in Africa are "pretty positive," said Weihrauch, who added that the company expects normalization of cocoa prices at some point.

The snack maker will also help Mars scale in international markets. After closing, Kellanova will become part of Mars Snacking, which the company says it aims to double in the next decade. Weihrauch said that Mars has no plans to sell Kellanova's veggie burger and fake bacon brand Morningstar Farms.

"Mars enhances its global snacking business, possibly raising competitive levels for other large food players," Jefferies analyst Rob Dickerson wrote in a research note.

The candy maker intends to finance the deal through cash on hand and a $29 billion bridge loan facility.

Analysts have said a Mars-Kellanova tie-up wouldn't face major antitrust concerns because of the limited overlap between the two companies' products. Mars would have to pay Kellanova a $1.25 billion termination fee if the deal fails to gain regulatory approval, according to a filing.

Previously, the biggest deal announced this year was Capital One Financial Corp.'s agreement to buy Discover Financial Services for $35 billion in February, data compiled by Bloomberg show.

– With assistance from Peter Vercoe

(Updates with comments from interview with companies' CEOs.)