Nestlé to Buy Pfizer's Infant Nutrition Unit

By NEIL MACLUCAS

ZURICH—Nestlé SA NESN.VX -3.33% said Monday it has agreed to pay $11.85 billion to acquire Pfizer Inc.’s infant nutrition business, a deal that is expected to help the Swiss food giant expand in emerging markets and cement its leading position in the global baby-formula market.

The deal is Nestlé’s largest since January 2001, when it bought U.S. pet-food company Ralston Purina for around $10 billion.

Nestlé beat off competition from Danone SA BN.FR -3.55% and Mead Johnson Nutrition Co. MJN +1.33% for the business, whose main products include SMA Gold infant formula.

"Pfizer Nutrition is an excellent strategic fit and this acquisition underlines our commitment to be the world’s leading nutrition, health and wellness company," Nestlé Chief Executive Paul Bulcke said in a statement. "Its strong brands and product portfolio, together with its geographic presence will complement our existing infant nutrition business perfectly."

The acquisition, which is subject to regulatory approval, will be accretive to the Nestlé model both for growth and margins, as well as the group's earnings per share in the full first year, it said.

Nestlé estimates the acquired business’s 2012 sales at $2.4 billion, 85% of which are generated in emerging markets, many of them with large, fast-growing populations. It ranks No. 5 globally in the infant milk formula market—the world’s fastest-growing packaged food category.

"The purchase price looks high at first glance, but given the deal is likely to be EPS positive in the first year, and the higher margins at the Pfizer unit, the price is probably justified," said Patrick Schwendimann, an analyst at Zuercher Kantonalbank.

Nestlé is the leading seller of milk formula for babies, with a 17% share of the $27 billion global market in 2010, followed by Mead Johnson with 15% and Danone with 13%, according to the most recent data from research firm Euromonitor International.

The acquisition is likely to help Nestlé expand its presence in China, one of the biggest markets for infant nutrition, a person familiar with the matter said. The unit is also among Pfizer's smallest—the company had $67.4 billion in 2011 revenue—and it lies outside the drug maker's core business selling prescription medicines.Pfizer has been shedding businesses outside its core medicine franchise in part to boost its shares. Last August, it sold its Capsugel unit, which makes drugs in capsule form, to private-equity firm KKR & Co. for $2.4 billion. Some investors have clamored for the sale of even more units, such as its over-the-counter business that sells Advil cold-and-pain medicine and other consumer-health products.