

## General Mills to Buy Blue Buffalo Pet Food for \$8 Billion

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- Company expands in pet care as consumers seek natural brands
- Blue Buffalo has grown 12 percent annually in past three years



Photographer: Daniel Acker/Bloomberg

[General Mills Inc.](#) agreed to buy [Blue Buffalo Pet Products Inc.](#) for about \$8 billion, adding the maker of natural dog and cat food to a portfolio that includes Haagen-Dazs ice cream and Cheerios cereal.

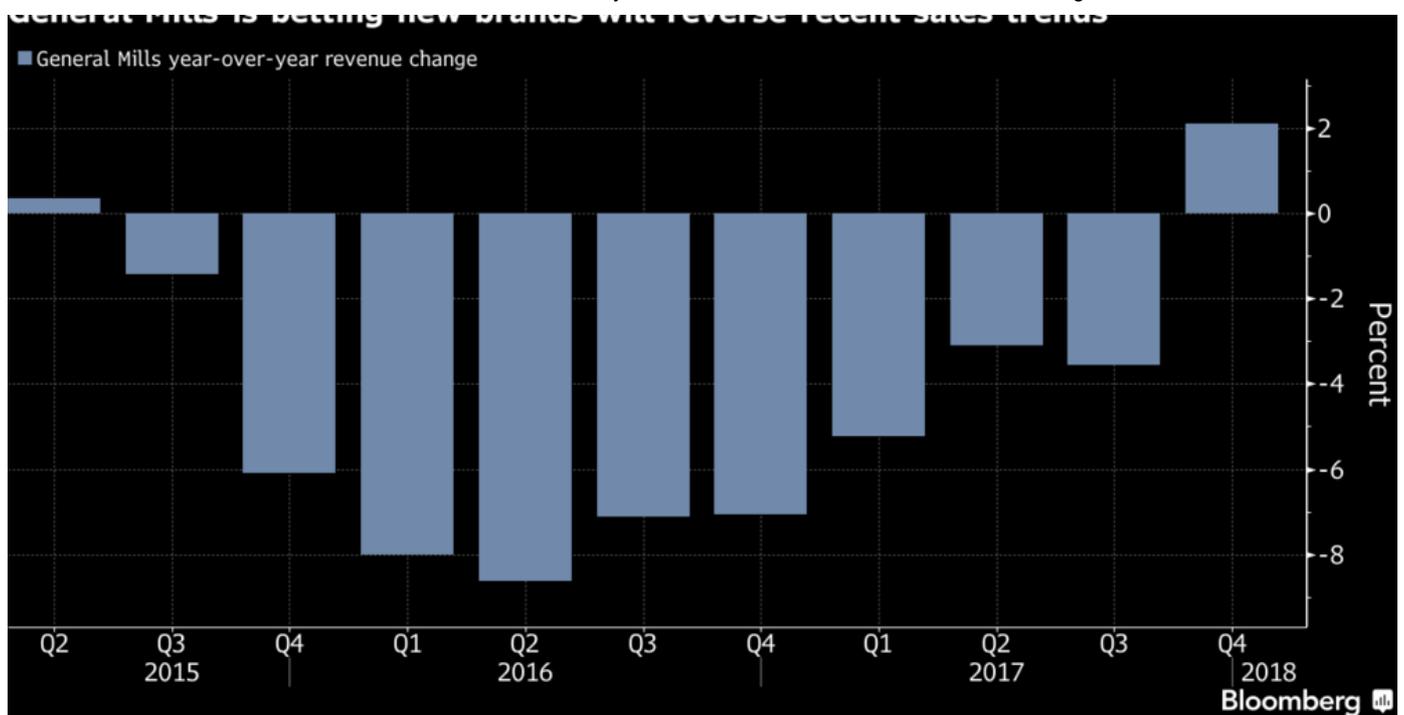
The company [plans](#) to pay \$40 a share for Blue Buffalo, which sells products like “antioxidant-rich” dog nutrition and cat food under brands such as Blue Life Protection Formula, Blue Wilderness and Blue Basics. That’s a 17 percent premium from Thursday’s closing price.

The deal comes as global food giants snap up makers of natural and organic products, which are outpacing mainstream brands in growth.

“In pet food, as in human food, consumers are seeking more natural and premium products,” General Mills Chief Executive Officer Jeff Harmening said in a statement.

### Hungry for Growth

General Mills is betting new brands will reverse recent sales trends



Shares of the Wilton, Connecticut-based pet-food maker rose as much as 17 percent to \$39.95. Over the past three years, Blue Buffalo has delivered compound annual net sales growth of 12 percent, the companies said, reaching \$1.3 billion in the 2017 fiscal year.

General Mills investors, meanwhile, gave a cool reception to the deal. Its [shares](#) fell as much as 6 percent to \$51.66 -- the most intraday in five months. The stock had already lost 9.6 percent in the last 12 months through Thursday. Blue Buffalo shares gained 35 percent in the same period.

## General Mills to Buy Blue Buffalo Pet Food in \$8B Deal

Bloomberg's Jason Kelly discusses General Mills agreeing to buy Blue Buffalo Pet Products.  
(Source: Bloomberg)

### Pet-Care Scramble

General Mills is one of several consumer-product giants focusing on pet care, a \$30 billion market in the U.S. alone. [Nestle SA](#) has said its Purina division is a central focus as the Swiss company divests slower-growing units like its U.S. confectionery business. [Cargill Inc.](#) in January [agreed to buy](https://www.cargill.com/2018/cargill-strengthens-pet-food-production-and-distribution) Pro-Pet, the maker of Black Gold dog food.

The buzz around the pet-food sector means another suitor may emerge for Blue Buffalo, said Pablo Zuanic, an analyst at Susquehanna International Group.

“We think there is potential for counterbids,” he said in a research note. J.M. Smucker Co. wants to beef up its pet-food presence and the sector is a priority for Nestle, he said.

General Mills, based in Minneapolis, will finance the deal with debt, cash on hand and about \$1 billion in equity. The price represents a 23 percent premium to Blue Buffalo’s 60-day volume-weighted average price. The deal has been approved by both companies’ boards but needs to be cleared by regulators.

Goldman Sachs Group Inc. advised General Mills on the deal, while Cleary Gottlieb Steen & Hamilton LLP was the company’s legal counsel. JPMorgan Chase & Co. and Centerview Partners LLC served as the financial advisers to Blue Buffalo, with Simpson Thacher & Bartlett LLP providing legal advice.

## **Prolonged Slump**

General Mills, like its U.S. competitors, has been struggling through a prolonged sales slump as customers change how they eat and shop. That’s pressured Harmening, who took over last year, to find a way to reignite sales growth. This has been complicated by a grocery price war that’s pressured margins and a decline in the popularity of longtime household staples.

The company has seen revenue drop the last three years, with a cereal slide and troubles at its yogurt unit hampering performance.

Akshay Jagdale, an analyst at Jefferies LLC, estimated the deal’s valuation at 25 times earnings before interest, taxes, depreciation and amortization, or “one of the richest transactions in the food space.”

Sluggish growth has fueled a surge of consolidation, driving up prices as the biggest companies look to snap up smaller competitors. In 2017, the average multiple for food-and-beverage deals was 17.7 times Ebitda. That’s up 36 percent from the prior year and almost 50 percent more than the average dating back to 2010, according to Jagdale’s estimates.

In December, Campbell Soup Co. agreed to pay about \$6 billion for Snyder’s-Lance, spending 21 times Ebitda for a push into salty snacks as canned soup sales slump. Last year, deals in the food industry totaled \$110 billion globally, data compiled by Bloomberg show. More than half of that came from acquisitions of U.S. food companies, which more than doubled from the previous year to almost \$56 billion.

But there are limits to how much buyers are willing to spend, said Jagdale, who doesn’t see another company stepping forward to acquire Blue Buffalo.

“We would not expect a more compelling competing bid given the price tag,” Jagdale said in a research note.