

Mars and wrigley



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Mars and Wrigley Table of Contents Answer to Question 3 Finally, there are little chances that the two older players, viz., Nestle and Cadbury would merge with one another to put up with Mars-Wrigley, due to anti-trust laws which prohibit them from forming a cartel and hence skewing the market forces (University of the Pacific, ' Antitrust Law'). 4

Answer to Question 24

Wrigley had acquired Kraft's confectionaries, which had been operating at a wide profit margin, back in 2005. The potentials of Wrigley undoubtedly went up following the acquisition which was why Berkshire Hathaway, the investment firm owned by Warren Buffett, was convinced about the recent deal between Mars and Wrigley (Barr, ' Buffett gets closer to Mars through Wrigley deal'). 4

References⁵

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Answer to Question 1

Mars and Wrigley had individually been playing in the food sector of United States until the former acquired the latter during the second half of 2008 in lieu of US\$23 million. Since then, the merged company had been enjoying a significant part in the food market of USA, with an increased support from the investors. This favor has been reflected in the form of an appreciated P/E ratio of 27.8 for the company, compared to that of the market which is floating at 15. The relevance of this statistic is that investors are ready to pay 27.8 times the amount they expect to earn from Mars-Wrigley shares. In contrast, the average market statistic is 15 times the amount that investors are willing to pay for earning 1 unit. Clearly, the shares of the merged company have been selling at a market premium, which could easily be concluded as a consequence of a positive anticipation from the mass. There might be a few reasons behind such an optimistic approach though.

Firstly, after acquisition, the position of the merged company rose to those of peers of high-end players like Cadbury and Nestle. In other words, Mars-Wrigley since 2008, started to be known as competitors for the two giants.

Secondly, the merged company has expanded its productive capabilities and range of goods which it produces, since 2008. Previously, Cadbury had been the only player in the US food sector which had excelled in the production of confectionaries, beverages, pet foods, etc. However, one more name had been added to the list in terms of such versatility since 2008 (Thelwell, 'Mars snaps up Wrigley for \$23bn with help from Buffett').

Finally, there are little chances that the two older players, viz., Nestle and Cadbury would merge with one another to put up with Mars-Wrigley, due to anti-trust laws which prohibit them from forming a cartel and hence skewing

the market forces (University of the Pacific, ' Antitrust Law').

Hence, there are little chances that Mars-Wrigley would fall back to their previously held individual positions in future, though the premium in P/E ratio could be regarded as nothing other than a futuristic mechanism.

Answer to Question 2

Mars bought Wrigley in 2008 at US\$ 23 billion paying at US\$ 80 in cash per share, which was at a 28 percent premium than the price at which Wrigley's shares traded back then. There were a few reasons as cited by experts, behind such a step.

Wrigley, a 117-year old company, had excelled in the production and sale of gums, which did not fall within the domains of Cadbury – a direct competitor of Mars. Hence, acquiring Wrigley could add a new domain to the business operations of Mars giving it an extra edge over its rivals. Post acquisition, the company accounts for being not only the largest gum producer, but the largest chocolate maker in the world as well (Thelwell, ' Mars snaps up Wrigley for \$23bn with help from Buffett').

Wrigley had acquired Kraft's confectionaries, which had been operating at a wide profit margin, back in 2005. The potentials of Wrigley undoubtedly went up following the acquisition which was why Berkshire Hathaway, the investment firm owned by Warren Buffett, was convinced about the recent deal between Mars and Wrigley (Barr, ' Buffett gets closer to Mars through Wrigley deal').

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