

## Ralcorp Rejected Unsolicited Takeover Proposal in March

By Jeran Wittenstein and Matthew Boyle

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Ralcorp Holdings Inc. (RAH), the maker of Honey Bunches of Oats cereal, rejected an unsolicited takeover offer in March after deciding the bid wasn't in the best interest of shareholders.

The board isn't in talks with anyone on a sale, the St. Louis, Missouri-based cereal maker said in a statement last night. Ralcorp didn't identify its suitor. Last week, CNBC reported that ConAgra Foods Inc. (CAG) made an unsolicited bid.

Apollo Global Management LLC is seeking an investment in Ralcorp and planned to meet with managers to discuss options, a person familiar with the talks said April 29. Ralcorp, formed in a spinoff from Ralston Purina Co. almost 20 years ago, generated more than \$4 billion in sales last year from selling store-brand items such as peanut butter, cookies and condiments, as well as the Post brand of cereal.

*"I am not surprised by ConAgra's interest, but the option that might make most strategic sense would be an approach by private equity," said James Amoroso, a food industry consultant based in Walchwil, Switzerland. A private-equity firm may decide to sell the Post cereal business and focus on private labels, he said. History suggests "that companies that mix branded and private label business model do not do well."*

Ralcorp spokesman Matt Pudlowski didn't return a call for comment. ConAgra spokeswoman Teresa Paulsen declined to comment.

A ConAgra purchase of Ralcorp would make sense because of ConAgra's familiarity with store-brand industry trends, Christopher Growe, an analyst at Stifel Nicolaus, said in a note to clients today.

### ConAgra Offer?

"ConAgra could well still be lurking," said the St. Louis-based analyst, who recommends holding ConAgra's shares. A bid also may signal "a higher appetite for risk on the part of senior management."

Ralcorp rose 3.3 percent to \$80.33 at 9:54 a.m. in New York Stock Exchange composite trading. Omaha, Nebraska-based ConAgra gained 29 cents to \$24.74.

There were almost 1,800 food-company takeovers in the five years through 2010, according to data compiled by Bloomberg. Acquirers have paid an average of 8.8 times earnings before interest, taxes, depreciation and amortization, the data show. Ralcorp had Ebitda of \$628.60 million in the year ended September 2010.

This year, New York-based Apollo, led by Leon Black, bid for Sara Lee Corp., before being rebuffed by the Downers Grove, Illinois-based maker of Ball Park hot dogs. Apollo has been working with former consumer executive C. Dean Metropoulos to find investment opportunities in the industry.

## Acquisition History

ConAgra, known for its Chef Boyardee pasta and Healthy Choice frozen meals, has done a single acquisition in the past 12 months, the June purchase of American Pie LLC. Buying Ralcorp would give ConAgra Chief Executive Officer Gary Rodkin the biggest maker of store-brand pasta and cereal in the U.S.

Ralcorp added to its private-label pasta business with the \$1.2 billion purchase of the American Italian Pasta Co. last year. The business's branded cereals, including Raisin Bran.

Ralcorp, like rivals, faces rising prices for ingredients such as milk and wheat. The company gets about a quarter of its annual sales from its branded cereal unit, which sells products including Post Shredded Wheat. Post Foods traces its roots to the 1895 creation of cereal beverage Postum by C.W. Post. The company's biggest unit is its sauces and spreads business, which makes products including Hoody's Branded Snack Nuts and had \$1.5 billion in revenue last year.

The company also reported results for the second quarter ended March 31 yesterday. Net income climbed 78 percent to \$83.3 million, or \$1.50 a share, on sales of \$1.17 billion, Ralcorp said.

Acquisitions such as the American Italian Pasta purchase helped bolster sales, according to the company. Excluding items such as integration costs, earnings were \$1.43 a share, compared with the \$1.25 average of estimates compiled by Bloomberg.

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