

Diamond Foods Rises After Agreeing to Buy P&G Pringles Business

By Matthew Boyle and Cotten Timberlake - Apr 5, 2011 4:14 PM GMT+0200

Diamond Foods Inc. (DMND) rose the most in almost two years in Nasdaq trading after agreeing to buy Procter & Gamble Co. (PG)'s Pringles chip operations for \$1.5 billion, more than tripling the size of its snack business.

The shares of the San Francisco-based snack maker rose 10 percent to \$63.05 at 10:11 a.m. New York time in Nasdaq Stock Market trading. Earlier they surged as much as 12 percent, the most since May 2009.

The Pringles brand, sold in more than 140 countries, will help Diamond increase its global scale, more than doubling its snack sales in the U.S. and the U.K., where Diamond generates most of its potato chip revenue. Getting rid of Pringles also allows P&G Chief Executive Officer Robert McDonald to devote more effort to the home and personal care businesses.

"This deal always had a lot of deal appeal to it," Tim Ramey, an analyst at D.A. Davidson & Co. in Lake Oswego, Oregon, said in an interview. "It was interesting because Pringles was an orphan brand within P&G, and it improves Diamond's product mix dramatically, making it solidly a snack food company versus a commodity nut company." He advises investors to buy Diamond shares.

Diamond will assume \$850 million in Pringles debt, bringing the total value of the transaction to \$2.35 billion, the companies said today. Diamond expects the purchase to close by the end of the year.

"Pringles will fit like a glove and take Diamond into a whole new and bigger league," James Amoroso, an independent food industry consultant based in Walchwil, Switzerland, said in an e-mail. "Regardless of how successful P&G was with this business, it was always going to be a strange fit. Snacks has very different commercial dynamics."

P&G Shares

P&G fell 29 cents to \$61.97 in New York Stock Exchange composite trading.

The two companies had discussed a transaction as far back as last year, people with direct knowledge of the discussions said then. P&G's board decided against a deal in August over concerns about its structure. Today's transaction will take the form of a "Reverse Morris Trust," which allows P&G to sell in a more tax-efficient manner.

Diamond's other snacks include Pop Secret microwave popcorn and Emerald nuts. Diamond CEO Michael J. Mendes will lead the combined company, which will have sales of about \$2.4 billion. Pringles also will make Diamond into the world's second-biggest maker of savory snacks, trailing PepsiCo Inc.'s Frito-Lay unit.

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