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Wrigley to buy chocolate maker for \$300 million

By Josh Fineman
Bloomberg News
Published January 23, 2007, 5:05 PM CST

Wm. Wrigley Jr. Co., the world's largest chewing-gum maker, agreed to buy 80 percent of Russia's A. Korkunov for \$300 million in its first acquisition of a chocolate company.

Closely held A. Korkunov, which was founded in 1999 by a pair of entrepreneurs, makes bonbons and chocolate bars and is Russia's seventh-biggest chocolate maker. It had 2006 sales of \$100 million, Chicago-based Wrigley said in a statement today. Wrigley posted 2005 revenue of \$4.16 billion.

"It is the right decision to enter chocolate in a developing market rather than focusing on the much more competitive and slower growing developed markets," Eric Katzman, a Deutsche Bank Securities Inc. analyst in New York, wrote in a note today. He has a "buy" rating on the shares.

Wrigley first expanded beyond chewing gum in 2005 when it paid \$1.48 billion for Kraft Food Inc.'s candy division, gaining the Altoids and Life Savers brands.

The company will purchase the remaining 20 percent of A. Korkunov in a couple of years, spokesman Chris Perille said. The purchase is the first for Chief Executive Officer William Perez, who took over in October as the only person outside the Wrigley family to head the 115-year-old company.

Wrigley estimates the Russian chocolate market has annual sales of \$3.7 billion. A. Korkunov, which is located just outside of Moscow, is also Russia's second-largest maker of more premium chocolate.

Wrigley will receive a \$55 million tax benefit from the acquisition. The benefit is from goodwill and other assets associated with the purchase that are deductible business expenses, Perille said.

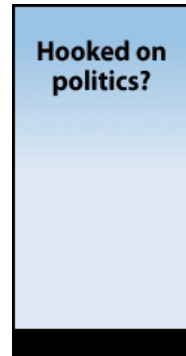
The acquisition will be funded with cash and a "modest" amount of debt, Wrigley said. It expects the purchase to be "positive" to its business, with only a small impact initially.

Wrigley entered the Russian market in the early 1990s and has operated a gum-making plant in St. Petersburg since 1999, Perille said.

Shares of Wrigley rose 29 cents to \$50.88 at 4:03 p.m. in New York Stock Exchange composite trading. They fell 1.6 percent in the past year.

In 2002, Wrigley attempted to enter the chocolate industry when it made a \$12.5 billion bid for Hershey Co. Hershey canceled the auction after pressure from Pennsylvania lawmakers and the company's local community.

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