ACQUISITION OF KELLANOVA BY MARS, INCORPORATED

An analysis

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Background of the deal

On August 13, 2024, Mars, Incorporated and Kellanova (NYSE: K) entered into a definitive agreement under which Mars has agreed to acquire Kellanova for a total consideration of $35.9 Billion, which includes factored receivables of $784 Million.

The acquisition price is $83.50 per share, which is at a 44% premium to Kellanova's unaffected 30-day trading Volume-Weighted Average Price or VWAP. The purchase price per share also represents a premium of 33% to Kellanova's unaffected 52-week high as of August 2, 2024[1]. The total valuation is at acquisition multiple of 16.4x LTM adjusted EBITDA as of June 29, 2024. The transaction is an all-cash transaction, with Mars taking over all of Kellanova's brands, assets, and operations, including its snacking brands, portfolio of international cereal and noodles, North-American plant-based foods, and frozen breakfast.

The deal is in line with recent trends in the snacking industry's taste buds for sweet and savory. The acquisition is set to propel the sweet-tooth Mars into pringles, crackers and a variety of salty snacks while strengthen its mission to develop into a sustainable snacking business. The diversification into salty snacks would further help Mars shield its bottom-line from expectations of increasing sugar prices by 6.4% in 2025[2] and cocoa prices in 2025 and 2026[3], as well as from a growing number of Americans rejecting sweets[4].

The deal is expected to significantly increase leverage of Mars, Incorporated and has led to downgrading the issuer to 'A' from 'A+.' However, given the historical performance of Mars, Incorporated of re-investing 90% of earnings and paying off debt, the company is expected to pay down the debt over next two fiscal years. With several strategic synergies, the deal is focused on enhancing financial stability to boost investor confidence.

The acquisition is expected to close first half of 2025 with a successful integration of Kellanova.

Source:
[1] Press release, corporate website of Kellanova, dated August 14, 2024: https://investor.kellanova.com/news-events/news-details/2024/Mars-to-Acquire-Kellanova-de7e19f9d/default.aspx | Definitive Proxy Statement, corporate website of Kellanova, dated August 13, 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://s203.q4cdn.com/897568180/files/doc_events/2024/Sep/kellanova-definitive-proxy-statement.pdf
[2] USDA Food Price Report, 2025, USDA, dated February 25, 2025: https://www.ers.usda.gov/data-products/food-price-outlook/summary-findings#:~:text=Prices%20for%20sugar%20and%20sweets%20are%20predicted%20to%20increase%20by,of%201.0%20to%207.9%20percent.
[3]Mars Inc. Downgraded To 'A' On Kellanova Acquisition; Off CreditWatch Negative; Outlook Stable, S&P, dated February 27, 2025: https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3330545?utm_medium=cpc&utm_source=google&utm_campaign=SNL_Banker_Search_Google&utm_term=&utm_content=298712797329&gclid=EAIaIQobChMIt4TV-6PM8wIV3G1vBB1LVgzKEAAYASAAEgIVr_D_BwE
[4]Mars Unveils Strategy To Double Snacking Revenue To $36 Billion, FORBES Exclusive, dated December 12, 2023: https://www.forbes.com/sites/chloesorvino/2023/12/12/exclusive-mars-strategy-to-double-snacking-revenue-to-36-billion/

Abbreviations used in the document

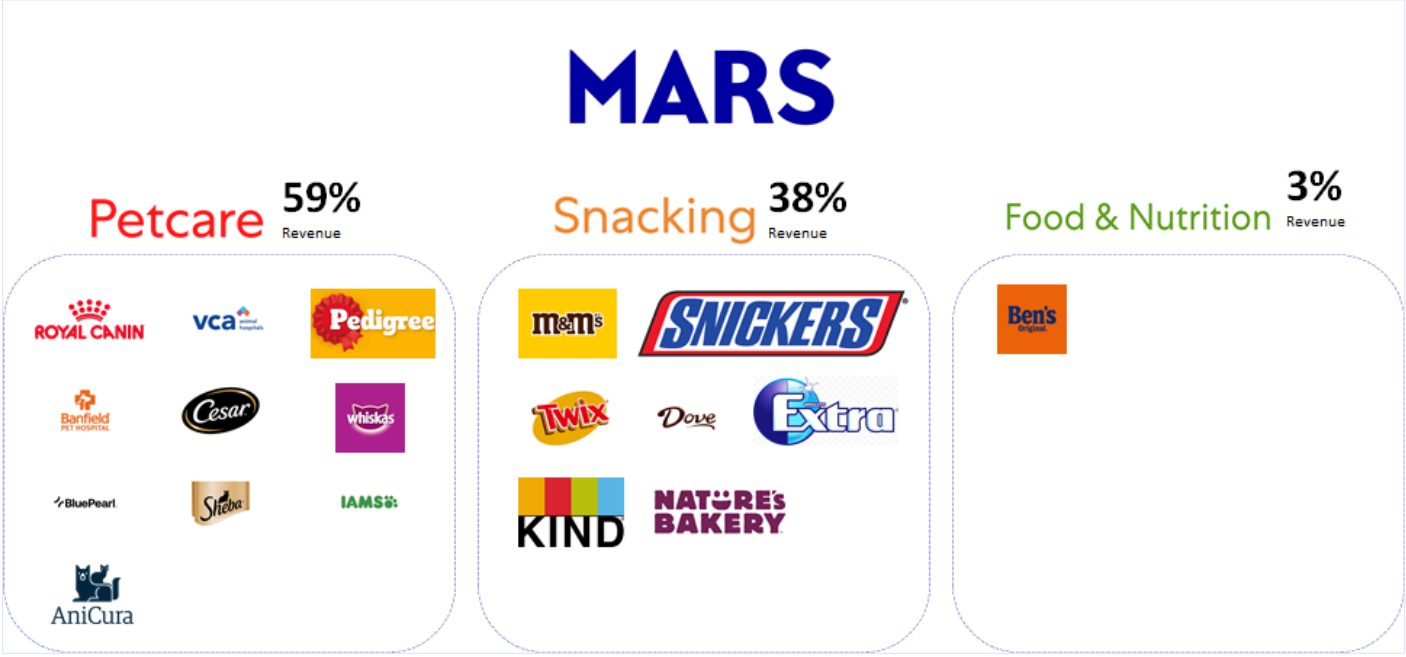
ABBREVIATION	FULL FORM
MARS, INCORPORATED	Mars
TEV	Total Enterprise Value
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
TTM	Trailing Twelve Months
NTM	Next Twelve Months

Financial Performance of Mars

Overview of Mars

Mars is a family-owned private company with a global footprint. Existing portfolio of Mars includes Snacking, Petcare and Food & Nutrition.

Figure 1: Portfolio of Mars before merger



Source: Website of Mars, Incorporated

To assess whether the acquisition of Kellanova solidifies financial position of Mars, Incorporated, also referred to as Mars in the report, the financial health of Mars has been estimated using valuation multiples.

Methodology adopted for financial assessment of Mars

Mars being a privately held company, highly limited information about financial performance is available in public domain and other databases including Preqin, Crunchbase and LSEG Workspace. Given the highly limited financial information available for Mars, financial performance and industrial strength of Mars over last 5 years have been estimated using ancillary performance indicators. Some of these indicators are directly related to financial performance of Mars and include quantitative parameters such as estimation of EBITDA, TEV and Total Debt of Mars. Performance of Mars has been gauged using changing financial performance of comparable companies of Mars for which financial information is readily available. Other qualitative factors used for assessment include changes in market share and analysis of costs of ingredients major to business of Mars such as sugar.

Comparable companies of Mars, Incorporated

Based on nature of business, offerings, heritage of organization and market capitalization, 3 comparable companies have been identified for Mars. The 3 comparable companies are: The Hershey Company, General Mills, Inc and Chocoladefabriken Lindt & Sprüngli AG with performance numbers converted into USD.

Profits of Mars

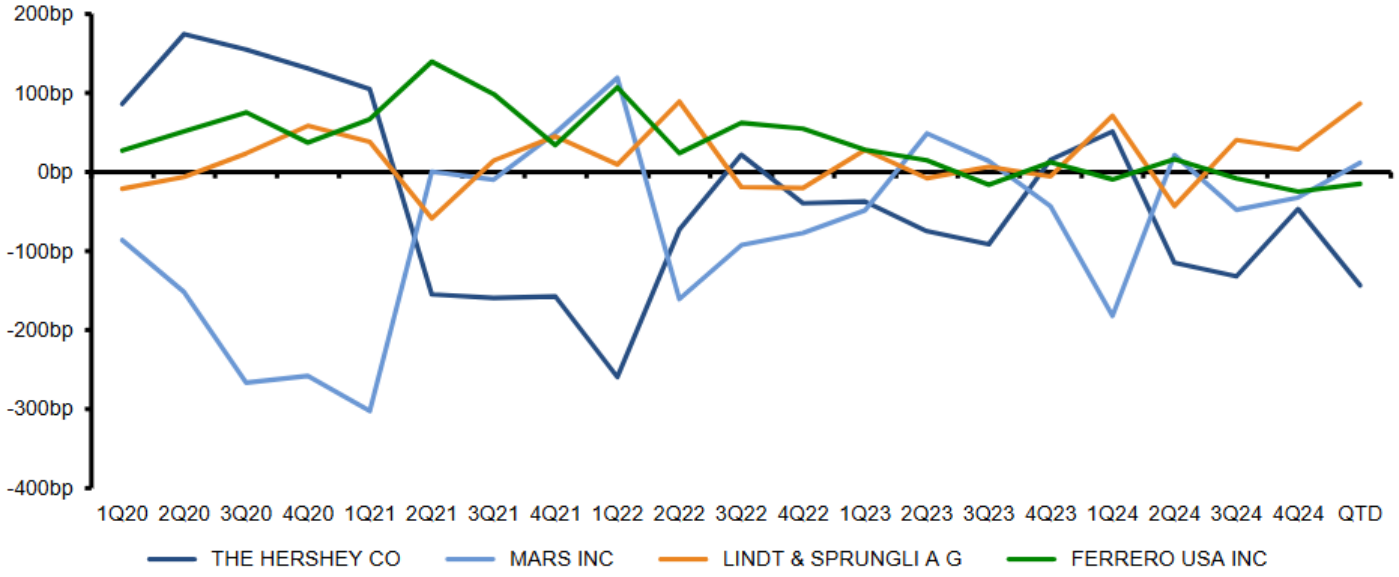
Profit is a function of revenue generated and associated costs.

Changes in market share of Mars, affecting its revenues and financial performance parameters

Mars generated $50 Billion in annual sales in 2023[1]. **Despite strong sales year, the market share of Mars has been fluctuating rapidly.** Change in revenue can be determined by the changing market share of the company. Chocolate candy business being the most dominant business segment for Mars, analysis of market share provides insights into fluctuating revenue of Mars as compared to its peers.

'Figure 2: Changes in market share of Mars with respect to industry players' demonstrates a change in the market share of Mars over last 5 years vis-à-vis its comparable peers such as The Hershey Co, Chocoladefabriken Lindt & Sprüngli AG and Ferrero USA, Inc in the chocolate candy business.

Figure 2: Changes in market share of Mars with respect to industry players in chocolate candy industry[5]



As seen in Figure 2, Mars continually lost market share by a 300 bps in 2020, largely to The Hershey Co. Although the timeline coincides with the COVID pandemic spreading fast globally, the loss in market share cannot be largely advocated to the COVID pandemic. Through the second quarter of 2020 to first quarter of 2021, the chart informs of a gain in market share by The Hershey Co of magnitude similar to the market share lost by Mars. Mars recovered its market share in first quarter of 2022 by a 100 bp. The market share of Mars suffered severely since with a loss of 200 bps in the first quarter of 2024. Although Mars has not experienced a higher growth in market share than last experienced in first quarter of 2022, the growth in market share of Mars seems to be recovering steadily since the second quarter of 2024.

Source:
[1]Press release, corporate website of Kellanova, dated August 14, 2024: https://investor.kellanova.com/news-events/news-details/2024/Mars-to-Acquire-Kellanova-de7e19f9d/default.aspx | Definitive Proxy Statement, corporate website of Kellanova, dated August 13, 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://s203.q4cdn.com/897568180/files/doc_events/2024/Sep/kellanova-definitive-proxy-statement.pdf
[5]'The Food Set-up: CAGNY 2025 Handbook' report by Evercore ISI, LSEG Workspace, dated February 14, 2025

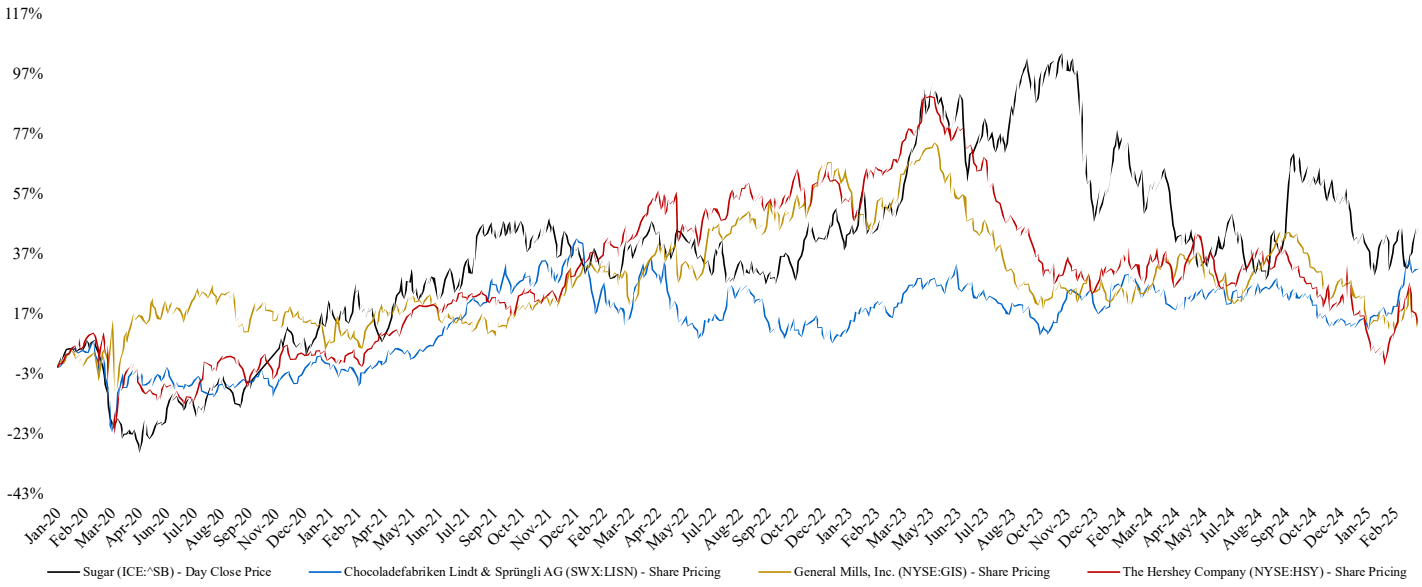
The rapid changes in the market share are indicative of fluctuations in unit sales of Mars, affecting revenues. However, **Mars gaining market share since the first quarter of 2024 as indicated in Figure 2 is indicative of recovery in revenues, improving its EBITDA, unlevered free cash flow and EPS.**

Effects of changes in prices of main raw materials on financial performance and valuations

Sugar being some of the prominent ingredients for sweet snacks and confectionery, changing prices of these raw materials are estimated to have effects on the bottom-line of the organization, also affecting net working capital and EBITDA multiples.

Prices of sugar have surged since 2023. The market confidence towards comparable companies of Mars have been changing in tandem to changing prices of sugar.
'Figure 3: Sugar Price vs Market Prices of comparable companies of Mars, Incorporated' indicates the comparison of changes in sugar prices to the changes of market perception of financial performance of public companies comparable to Mars. In the figure, black line indicates changes in sugar price, blue line indicates changes in Chocoladefabriken Lindt & Sprüngli AG US Equity price, yellow line indicates changes in General Mills, Inc US Equity price and red line indicates changes in The Hershey Co US Equity price over last 5 years.

Figure 3: Changes in price of Sugar vs changes in Market Price of comparable companies of Mars, Incorporated[6]



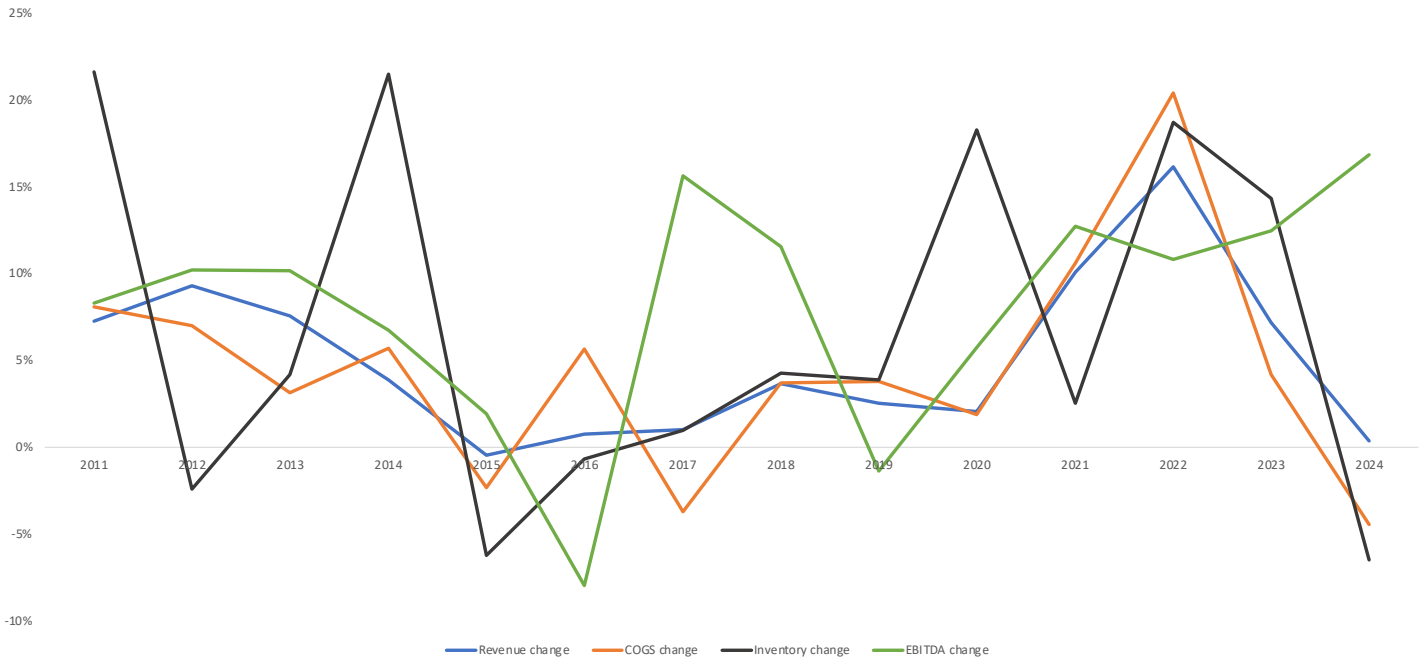
As per analysis over Bloomberg related to changes in share prices of comparable companies of Mars and spot price of SB1 Sugar commodity[7] (original chart has been replaced to comply with Bloomberg policy), the synchronicity of market prices of the comparable companies to changes in sugar prices indicates that market perception of a strong financial performance of companies that rely on sugar as one of the main raw materials is altered with changes in the prices of sugar. As indicated in Figure 3, a significant increase in sugar prices in 2023 negatively affected the market perception of a strong financial performance of chocolate candy

Source:
[6] Chart builder, price of Sugar (ICE SB) commodity and US Equities for comparable companies of Mars, Inc, Capital IQ, dated March, 2025: https://www.capitaliq.com/CIQDotNet/Charting4/ModernBuilder.aspx?fromTSQC=true&color=3030FF&color2=DC0A82&companyId=283356&hasVolume=true&timeFrame=365&dataType=0&dataType2=-1&estimatePeriod=1&estimatePeriod2=1&fromC3=1
[7] Analysis and charts developed over Bloomberg Platform

companies, as reflected in decrease in prices of the comparable trading companies. This is indicative of a decline in revenue and in profits for these companies.

To test the hypothesis, a deep-dive analysis on the utilization of inventory in times of increasing prices of raw materials and related changes in cost of goods sold and EBITDA has been performed on the comparable companies. 'Figure 4: Inventory usage and effects on financial performance of The Hershey Company' illustrates business practices of The Hershey Company. In 2022, with a reduction in prices of sugar, the inventory is increased in anticipation of increase in prices of sugar. Hershey Company could hedge the EBITDA by utilizing its inventory reserves in 2023 as seen by depletion in inventory values since 2023. Hence, with reduction in Cost of Goods Sold despite an increase in price of sugar in 2023, the EBITDA increased. However, as seen historically in years 2012, 2015 and 2019, a significant drop in inventory levels forces the EBITDA of the organization to reduce drastically.

Figure 4: Inventory usage and effects on financial performance of The Hershey Company[8]



The assessment reveals that with depletion in inventory reserves of such companies, the EBITDA is negatively affected. Given that the organization has fast depleted its inventory reserves procured during season of reduced prices of raw materials, the EBITDA could be expected to be affected in the near future.

Source:
[8]Capital IQ database

The trend can be seen for other comparable companies as well. Refer ‘Figure 5: Inventory usage and effects on financial performance of Chocoladefabriken Lindt & Sprüngli AG’ and ‘Figure 6: Inventory usage and effects on financial performance of General Mills, Inc.’

Figure 5: Inventory usage and effects on financial performance of Chocoladefabriken Lindt & Sprüngli AG[8]

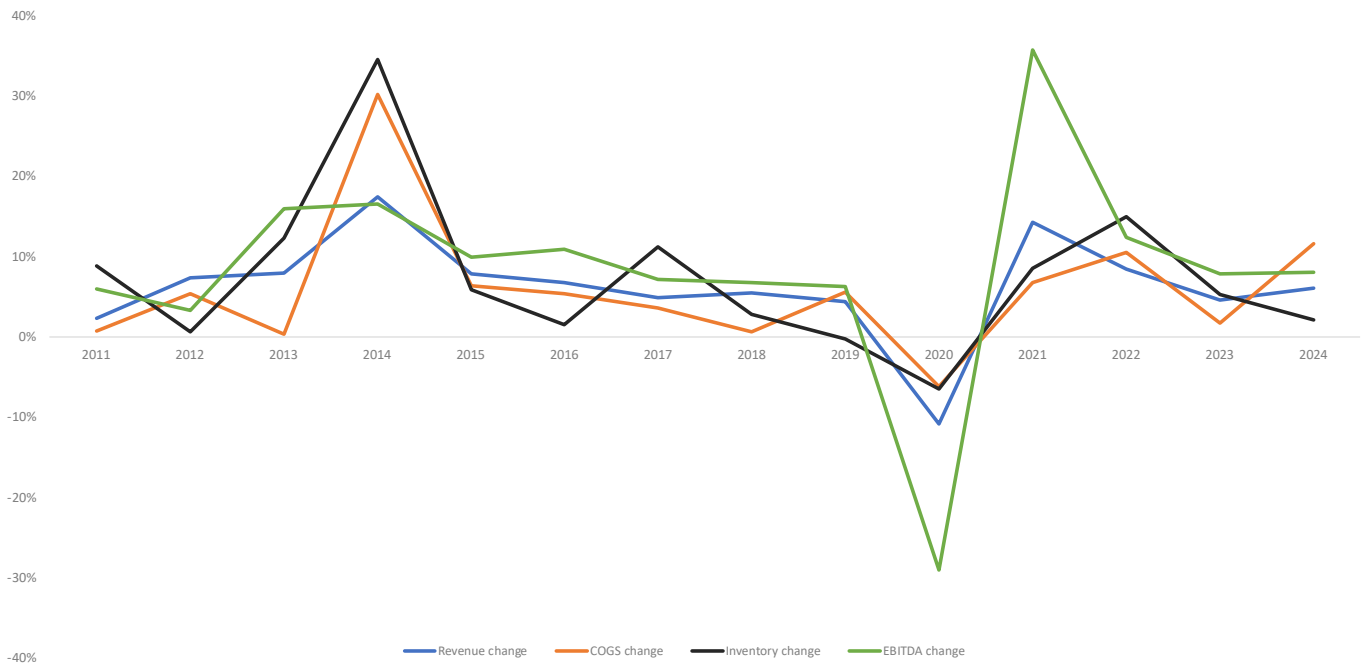
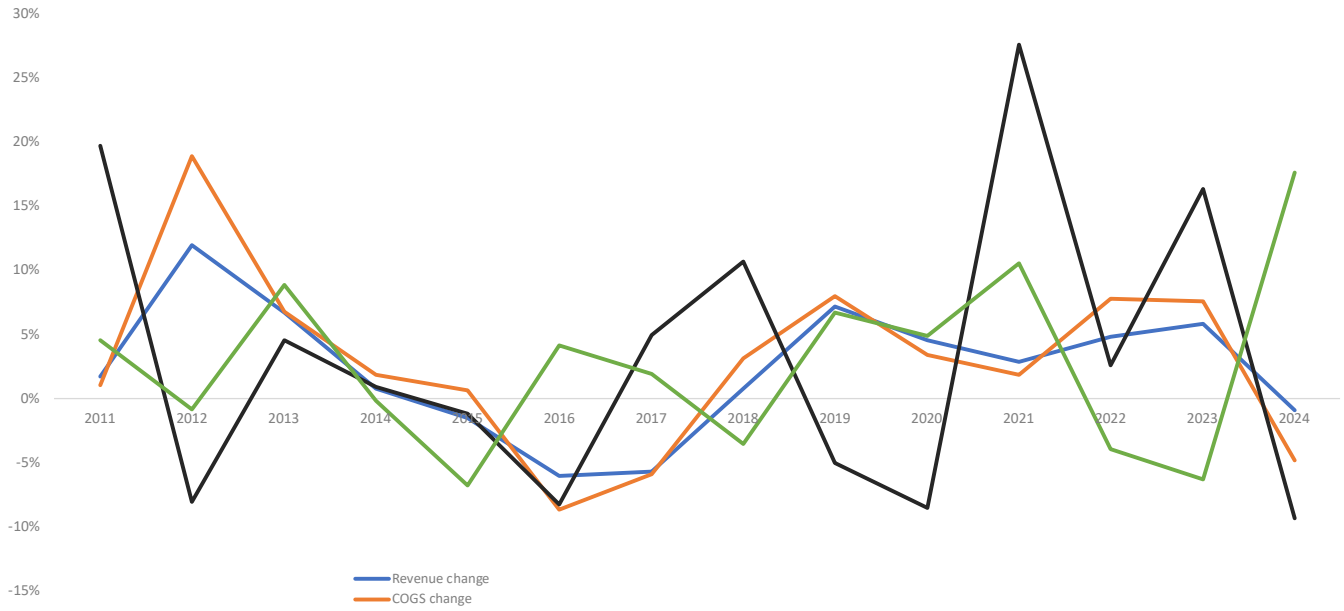


Figure 6: Inventory usage and effects on financial performance of General Mills, Inc[7]



Source:
[8]Capital IQ database

The comparable company analysis translates into indicative effects of increased sugar prices and depleting inventory reserves on Cost of Goods Sold and EBITDA of Mars.

Forecasted prices of Sugar commodity

To forecast the financial performance of Mars in near future based on the analogy, the forecasted sugar prices have been considered.

Futures prices have been considered as a benchmark for forecasted sugar prices. The non-arbitrage forecasted sugar prices from March 2025 to October 2027. The future prices of SBK5 commodity as reflected over **Bloomberg platform** have been considered for the analysis. Based on the prices forecasted in September 2024 from 2025 to 2027, sugar prices are expected to increase in 2025 till mid-2026, post which the prices are expected to drop.

The increase in the prices of sugar till mid-2026 would weigh down EBITDA and Free Cash Flow of the market players, thus reducing their profits and valuations.

This is indicative of the fact that given the expected increase in sugar prices in 2025 and mid-2026, Mars without the acquisition of Kellanova would be forecasted to have lower financial performance.

Comparable companies valuation metrics

Based on comparable companies analysis, the valuation multiples for Mars across Trading multiples and Operating ratios have been assessed as of August 13, 2024 the date of the definitive acquisition agreement.

Table 1: Trading multiples for Mars based on comparable company multiples[8]

TRADING MULTIPLES

COMPANY NAME	TEV/ REVENUES LTM	TEV/EBITDA LTM	TEV/EBIT LTM	P/DILUTED EPS	NTM TEV/FORWARD REVENUE	NTM TEV/FORWARD EBITDA	NTM FORWARD P/E
THE HERSHEY COMPANY	4.1x	14.9x	17.7x	22.1x	3.95x	14.95x	20.95x
GENERAL MILLS, INC	2.6x	11.3x	13.4x	16.1x	2.59x	12.42x	15.39x
CHOCOLADEFABRIKEN LINDT & SPRÜNGLI AG	4.9x	23.5x	30.4x	36.6x	4.60x	21.73x	36.50x
SUMMARY OF TRADING MULTIPLES FOR MARS							
HIGH	4.9x	23.5x	30.4x	36.6x	4.60x	21.73x	36.50x
LOW	2.6x	11.3x	13.4x	16.1x	2.59x	12.42x	15.39x
MEAN	3.9x	16.6x	20.5x	24.9x	3.72x	16.37x	24.28x
MEDIAN	4.1x	14.9x	17.7x	22.1x	3.95x	14.95x	20.95x

Table 2: Operating statistics for Mars based on comparable company multiples[7]

OPERATING STATISTICS

COMPANY NAME	LTM EBITDA MARGIN	LTM TOTAL DEBT / EBITDA	LTM TOTAL DEBT / CAPITAL
THE HERSHEY COMPANY	27.4%	1.9x	58.97%
GENERAL MILLS, INC	21.8%	3.0x	57.98%
CHOCOLADEFABRIKEN LINDT & SPRÜNGLI AG	19.5%	1.5x	27.93%
SUMMARY OF OPERATING STATISTICS FOR MARS			
HIGH	27.4%	3.0x	58.97%
LOW	19.5%	1.5x	27.93%
MEAN	22.9%	2.1x	48.29%
MEDIAN	21.8%	1.9x	57.98%

Source:
[8]Capital IQ database

The derived valuation multiples have been used to estimate financial performance of Mars. Refer 'Table 3: Financial performance of Mars' developed using multiples of comparable companies for computation of estimates. Some of the estimates that have been derived include TEV, EBITDA, Total Debt and Capital of Mars. These estimates have been computed using the Revenue figure available for Mars and by using various valuation multiples.

Table 3: Financial performance of Mars, Inc developed using multiples of comparable companies

FINANCIAL PERFORMANCE OF MARS (USD IN BILLIONS)

REPORTED REVENUE OF MARS, INCORPORATED: $50 BILLION[1]				
	TEV	**EBITDA**	**TOTAL DEBT**	**CAPITAL**
HIGH	245.00 ($50 Billion Revenue * 4.9 TEV/Revenue trading multiple)	67.13 (TEV * 27.4% LTM EBITDA Margin)	201.39 (EBITDA * 3 LTM Total Debt / EBITDA)	341.51 (EBITDA ÷ 58.97% Total Debt / Capital)
LOW	130.00 ($50 Billion Revenue * 2.6 TEV/Revenue trading multiple)	25.35 (TEV * 19.5% LTM EBITDA Margin)	38.03 (EBITDA * 1.5 LTM Total Debt / EBITDA)	136.14 (EBITDA ÷ 27.93% Total Debt / Capital)
MEAN	193.33 ($50 Billion Revenue * 3.9 TEV/Revenue trading multiple)	44.27 (TEV * 22.9% LTM EBITDA Margin)	92.97 (EBITDA * 2.1 LTM Total Debt / EBITDA)	192.53 (EBITDA ÷ 48.29% Total Debt / Capital)
MEDIAN	205.00 ($50 Billion Revenue * 4.1 TEV/Revenue trading multiple)	44.69 (TEV * 21.8% LTM EBITDA Margin)	84.91 (EBITDA * 1.9 LTM Total Debt / EBITDA)	146.45 (EBITDA ÷ 57.98% Total Debt / Capital)

As computed in Table 5, Mars has an estimated average TEV of $193.33 Billion with average Total Debt estimated at $92.97 Billion. Average EBITDA of Mars is estimated to be $44.27 Billion.

The financial performance parameters for industry peers for Mars have been populated in 'Table 4: Financial performance of Comparable Companies.'

Table 4: Financial performance of Comparable Companies

FINANCIAL PERFORMANCE OF COMPARABLE COMPANIES (USD IN BILLIONS)

	TEV	**EBITDA**	**TOTAL DEBT**	**CAPITAL**
THE HERSHEY COMPANY	45.86	1.11	1.45	10.16
GENERAL MILLS, INC	48.97	3.16	10.56	23.97
CHOCOLADEFABRIKEN LINDT & SPRÜNGLI AG	29.57	0.39	0.68	7.18
AVERAGE	41.47	1.55	4.23	13.77

In Table 4, TEV of The Hershey Company is as of Balance Sheet dated June 30, 2024 and pricing is as of August 1, 2024. TEV of General Mills, Inc, is as of Balance Sheet dated May 26, 2024 and pricing is as of June 26, 2024. TEV of Chocoladefabriken Lindt & Sprüngli AG is as of Balance Sheet dated June 30, 2024 and pricing is as of July 22, 2024. EBITDA and Total Debt reported as of December 2024 have been pro-rated to

Source:
[1]Press release, corporate website of Kellanova, dated August 14, 2024: https://investor.kellanova.com/news-events/news-details/2024/Mars-to-Acquire-Kellanova-de7e19f9d/default.aspx | Definitive Proxy Statement, corporate website of Kellanova, dated August 13, 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://s203.q4cdn.com/897568180/files/doc_events/2024/Sep/kellanova-definitive-proxy-statement.pdf

August 2024 for all companies. Capital encompassing Common Equity, Total Debt and Total Minority Interest as of December 2024 has been considered for all companies.

To assess financial strength of Mars, comparative analysis to financial performance of its peer companies has been conducted. Refer 'Table 5: Financial strength of Mars' for comparative assessment. Assessing financial strength of Mars before acquisition of Kellanova would provide insights into the leverage, EBITDA and enterprise value. It is highly representative of reasons and financial capability of Mars to conduct acquisition.

Table 5: Financial strength of Mars

FINANCIAL STRENGTH OF MARS (USD IN BILLIONS)

	TEV	EBITDA	TOTAL DEBT	CAPITAL
AVERAGE OF COMPARABLE COMPANIES	41.47	1.55	4.23	13.77
AVERAGE OF MARS, INC	193.33	44.27	92.97	192.53
MULTIPLES	4.66x	28.50x	21.98x	13.98x

Based on Table 5 above, it can be inferred that Mars, Inc has a much higher leverage of ~22 times as compared to the comparable companies but has TEV of only ~4.7 times the comparable companies. While the higher capital of ~14x contributes to higher TEV, a significant contribution to TEV seems to be from higher net debt. EBITDA of Mars is much higher as compared to its comparable companies, translating into higher Free Cash Flow and hence higher valuations as compared to its market peers. Higher EBITDA and hence higher Free Cash Flow directs to the possibility of Mars having the financial capability to repay its debt post acquisition of Kellanova.

Forward valuation multiples and potential performance of Mars

To delve deeper into reasons for acquisition of Kellanova by Mars, valuation of Mars based on forward multiples would provide changes or revisions to the futuristic outlook for Mars without the acquisition of Kellanova. Refer 'Table 6: Forward multiples of Mars' for forward valuations of Mars without acquisition of Kellanova.

Table 6: Forward multiples for Mars

FORWARD MULTIPLES				
COMPANY NAME	**NTM LT EPS GROWTH RATE**	**NTM TEV/FORWARD REVENUE**	**NTM TEV / FORWARD EBITDA**	**FORWARD P/E**
THE HERSHEY COMPANY	1.94%	3.95x	14.95x	20.95x
GENERAL MILLS, INC	2.40%	2.59x	12.42x	15.39x
CHOCOLADEFABRIKEN LINDT & SPRÜNGLI AG	7.70%	4.60x	21.73x	36.50x
SUMMARY OF FORWARD FINANCIAL PERFORMANCE FOR MARS				
HIGH	7.70%	4.60x	21.73x	36.50x
LOW	1.94%	2.59x	12.42x	15.39x
MEAN	4.01%	3.72x	16.37x	24.28x
MEDIAN	2.40%	3.95x	14.95x	20.95x

Based on forward valuation multiples derived for Mars in Table 6 above, forecasted financial performance of Mars has been estimated. Refer 'Table 7: Forward financial performance of Mars developed using forward multiples.'

Table 7: Forward financial performance of Mars, Inc developed using forward multiples

FORWARD FINANCIAL PERFORMANCE OF MARS, INC (USD IN BILLIONS)				
REPORTED REVENUE OF MARS, INCORPORATED: $50 BILLION[1]				
	NTM REVENUE	**NTM TEV**	**FORWARD EBITDA**	**FORWARD P/E**
HIGH	53.85 [$50 Billion Revenue * (1+ 7.70% NTM LT EPS GROWTH RATE)]	247.71 [NTM Revenue * 4.60 NTM / FORWARD REVENUE]	11.40 (NTM TEV ÷ 21.73 NTM TEV / FORWARD EBITDA)	36.50x
LOW	50.97 [$50 Billion Revenue * (1+ 1.94% NTM LT EPS GROWTH RATE)]	132.01 [NTM Revenue * 2.59 NTM / FORWARD REVENUE]	10.63 (NTM TEV ÷ 12.42 NTM TEV / FORWARD EBITDA)	15.39x
MEAN	52.01 [$50 Billion Revenue * (1+ 4.01% NTM LT EPS GROWTH RATE)]	193.46 [NTM Revenue * 3.72 NTM / FORWARD REVENUE]	11.82 (NTM TEV ÷ 16.37 NTM TEV / FORWARD EBITDA)	24.28x
MEDIAN	51.20 [$50 Billion Revenue * (1+ 2.40% NTM LT EPS GROWTH RATE)]	202.24 [NTM Revenue * 3.95 NTM / FORWARD REVENUE]	13.53 (NTM TEV ÷ 14.95 NTM TEV / FORWARD EBITDA)	20.95x

Source:
[1]Press release, corporate website of Kellanova, dated August 14, 2024: https://investor.kellanova.com/news-events/news-details/2024/Mars-to-Acquire-Kellanova-de7e19f9d/default.aspx | Definitive Proxy Statement, corporate website of Kellanova, dated August 13, 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://s203.q4cdn.com/897568180/files/doc_events/2024/Sep/kellanova-definitive-proxy-statement.pdf

The forecasted financial performance for Mars indicates that the average forecasted revenue of Mars for the next twelve months without acquisition of Kellanova would be $52.01 Billion with forecasted EBITDA as $11.82 Billion.

The forward financial performance parameters indicate a meager 4% growth in revenue over a two year period (compared to $50 Billion of revenue in 2023). The peer companies losing revenue and facing declining EBITDA as seen in Figure 4, Figure 5 and Figure 6, a considerable decline in Forward EBITDA of Mars is relatable. The acquisition of Kellanova would better the prospects to demonstrate a higher financial performance for Mars by diversifying its portfolio away from products that require raw materials with increasing costs into high growth revenue products.

An assessment of expected performance of peer companies of Mars can be referred to in 'Table 8: Forward Financial Strength of Mars, Inc.'

Table 8: Forward Financial Strength of Mars, Inc

FORWARD FINANCIAL STRENGTH OF MARS, INC AND COMPARABLE COMPANIES (USD IN BILLIONS)

	NTM REVENUE	NTM TEV	NTM EBITDA
THE HERSHEY COMPANY	11.43	39.06	2.25
GENERAL MILLS, INC	19.79	51.23	4.04
CHOCOLADEFABRIKEN LINDT & SPRÜNGLI AG	5.92	26.01	1.27
AVERAGE	12.38	38.77	2.52
AVERAGE OF MARS, INC	51.20	202.24	13.53
MULTIPLES	4.14x	5.22x	5.37x

Based on forward financial performance in Table 8, the multiples of Mars Inc as compared to its competitors have lowered significantly as compared to multiples seen in Table 7. This is indicative that Mars could lose a significant share to competitors without the acquisition of Kellanova.

Financial Performance of Kellanova

Overview of Kellanova

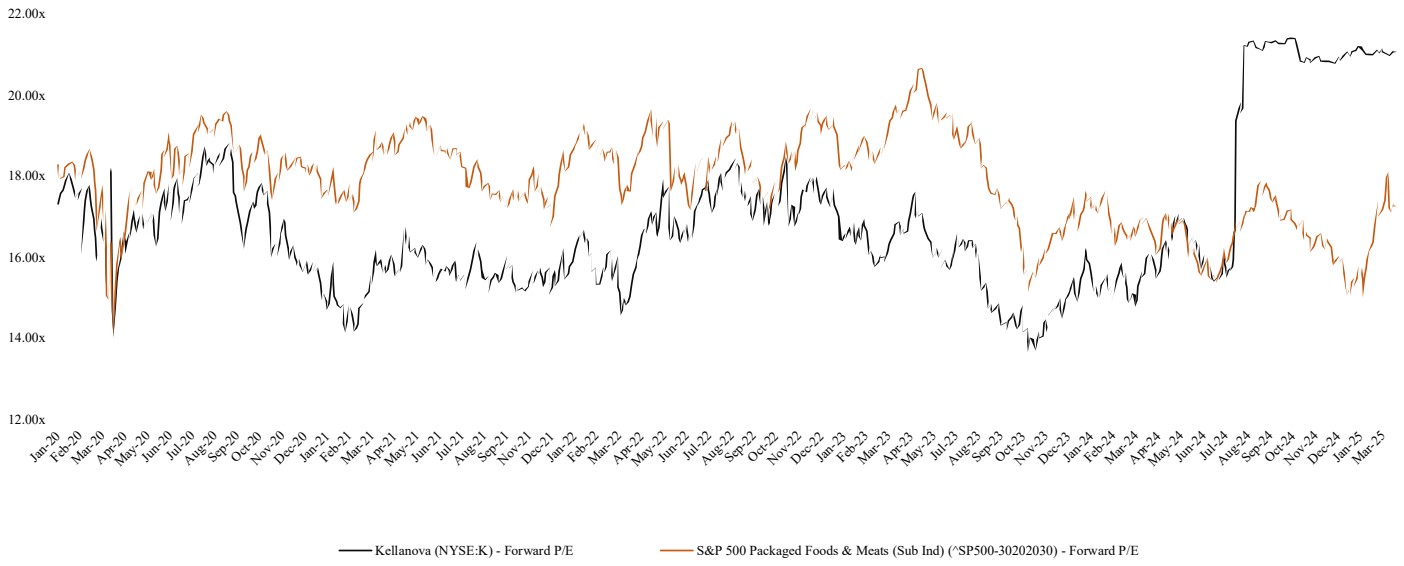
Kellanova is a leading company in global snacking, international cereals and noodles, North American plant based foods, and frozen breakfast foods. Some of the well recognized brands of Kellanova are Pringles, Cheez-It, Pop-Tarts, Eggo, MorningStar Farms, RXBAR, and Kellogg's (international). Kellanova is listed company (NYSE: K) with a market cap of $28.44 Billion as of March 18, 2025. The organization has 345.2 Million shares outstanding with 98.6% float.
The organization is classified in 'Packaged Food and Meats' industry under the Global Industry Classification Standard 'Consumer Staples.'

Assessment of Kellanova's operations

Assessment of target company is indicative of future financial health of the purchasing company. The healthier the target company, the higher is the probability of smooth integration and stronger financial performance of the acquiring company.

A deep-dive into P/E ratio of Kellanova as compared to industry peers talks about the market perception of financial performance of the company. The performance can been assessed using Forward P/E ratio of Kellanova in relation to the industry peers. Refer 'Figure 7: Forward P/E of Kellanova vs Industry' for market perception of Kellanova vis-à-vis peer companies. The chart containing blended forward P/E of Kellanova and industry peers (chart replaced to comply with Bloomberg policy) indicates that the blended forward P/E of Kellanova was consistently substantially lower as compared to industry peers[7]. The blended forward P/E of Kellanova spiked August 2024 after acquisition was announced.

Figure 7: Forward P/E of Kellanova compared to Packaged Foods & Meats Industry[9]



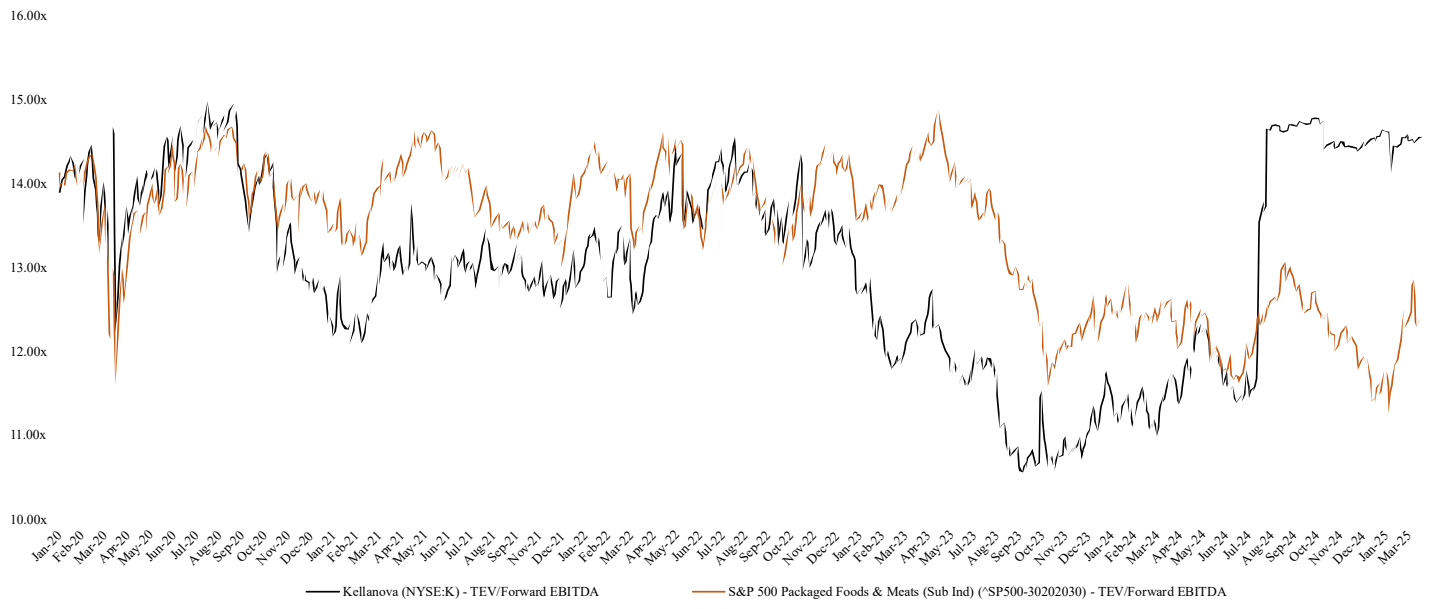
Source:
[7]Analysis and charts developed over Bloomberg Platform
[9]Chart builder, Forward P/E of Kellanova compared to Packaged Foods & Meats Industry, Capital IQ, dated March 2025: https://www.capitaliq.com/CIQDotNet/Charting4/ModernBuilder.aspx?fromTSQC=true&color=3030FF&color2=DC0A82&companyId=283356&hasVolume=true&timeFrame=365&dataType=0&dataType2=-1&estimatePeriod=1&estimatePeriod2=1&fromC3=1

As seen in Figure 7, the P/E ratio of Kellanova has consistently been much lower as compared to industry peer companies. This has resulted in a consistent lower valuation of Kellanova as compared to industry peers. One of the possible reasons for a lower performance could be lack of scaling of business in international locations and ineffective distribution agreements. Despite a rich legacy of quality and innovation, Kellanova has projected a weak financial performance compared to the Packaged Foods and Meats industry and its comparable peer companies in the last 5 years. One of the reasons for relatively lower performance has been lack of scale in emerging countries combined with low-margin Multipro distribution business in Nigeria. Kellanova's margins have been relatively lower than those of packaged food peers because of its international business and distributor agreement in Africa.

As illustrated in Figure 7, Kellanova has been improving market perception since 2022 and has been on a rising streak since 2023. Improving market perception indicates expectation of stronger financial performance of Kellanova. With announcement of acquisition of Kellanova by Mars, the blended forward P/E has spiked to be much higher than the industry peers. This indicates the positive outlook of investors of towards the acquisition and a successful close.

The analysis of blended forward EV/EBITDA would provide an insight to changing valuation of Kellanova based on EBITDA or cash operating profits. Refer 'Figure 8: Forward EV/EBITDA valuation of Kellanova vis-a-vis industry peers' for assessment of valuation multiple of Kellanova as compared to its industry peers. The blended forward EV/EBITDA ratio of Kellanova over Bloomberg platform (original chart replaced to comply with Bloomberg policy) suggests that Kellanova was undervalued as compared to its industry peers[7].

Figure 8: Forward EV/EBITDA valuation of Kellanova vis-a-vis industry peers[10]



As seen in Figure 8 above, valuation multiple of Kellanova was consistently lower for a large span as compared to its peer companies. The valuation multiple was higher for most of 2022, indicating positive outlook towards

Source:
[7]Analysis and charts developed over Bloomberg Platform
[10]Chart builder, Forward EV/EBITDA of Kellanova compared to Packaged Foods & Meats Industry, Capital IQ, dated March 2025: https://www.capitaliq.com/CIQDotNet/Charting4/ModernBuilder.aspx?fromTSQC=true&color=3030FF&color2=DC0A82&companyId=283356&hasVolume=true&timeFrame=365&dataType=0&dataType2=-1&estimatePeriod=1&estimatePeriod2=1&fromC3=1

financial performance. Since 2023, the multiple has been increasing steadily. This indicates that Kellanova is financially sound and is expected to generate stronger financial performance in the future.

Merger synergy

Kellanova would complement business of Mars greatly. Kellanova is a healthy target and provides for opportunities for improving profits substantially in the future. Some of the similarities between Mars and Kellanova as listed in 'Table 9: Similarities between Mars and Kellanova' for qualitative and quantitative comparative analysis. Similarities and differences between Mars and Kellanova have been assessed to check the confluence of culture, offerings, vision and financial strengths.

Table 9: Similarities between Mars and Kellanova

	MARS, INCORPORATED	***KELLANOVA***
REVENUE	$50 Billion (Net Sales 2023)[1]	$13 Billion (Net Sales 2023)
BRANDS	$15 Billion brands	$2 Billion brands
GLOBAL FOOTPRINT	30 countries	180 markets
MARKET FOOTPRINT	➢ +50% sales in Americas ➢ Greater presence in China	➢ 50% sales outside North America ➢ Greater presence in Africa
VISION	To help to make it easier for people to eat healthy meals and explore flavors from around the world, in a way which protects planet and supports farmers[11]	To become the world's best performing snacks-led company
PRODUCT CATEGORIES	➢ Snacking and Confectionery ➢ Global network of pet hospitals and diagnostic services ➢ Developing programs in genetic health screening and DNA testing	➢ Global snacking ➢ International Cereal and Noodles ➢ North American frozen foods
CULTURAL LEGACY	+ 100 years	+ 100 years

Source:
[1]Press release, corporate website of Kellanova, dated August 14, 2024: https://investor.kellanova.com/news-events/news-details/2024/Mars-to-Acquire-Kellanova-de7e19f9d/default.aspx | Definitive Proxy Statement, corporate website of Kellanova, dated August 13, 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://s203.q4cdn.com/897568180/files/doc_events/2024/Sep/kellanova-definitive-proxy-statement.pdf
[11]Mars, Incorporated corporate website: https://www.mars.com/about

Acquisition of Kellanova would be highly accretive to Mars. Kellanova's acquisition would help Mars diversify extensively. It would provide opportunities to enhance revenues and reduce costs, thus improving profits of Mars. Refer 'Table 10: Synergies of the transaction' for synergies through the acquisition.

Table 10: Synergies of the transaction

REVENUE SYNERGIES	
REVENUE	**Post acquisition revenues:** ➢ Revenue of Mars is expected to reach $70 Billion post acquisition. ➢ This is expected to increase scale of Mars closer to or greater than Mondelez and Pepsi Co.
BRANDS	**Contribution of Brands to financial performance post acquisition:** ➢ Pringles and Cheez-Its will be immediately accretive to Mars' snacking portfolio
MARKET FOOTPRINT	**Market footprint contribution to increasing revenues:** ➢ Kellanova's international footprint is complementary to Mars to enhance margin opportunities ➢ Stronger presence in unique markets of 2 entities ➢ Kellanova lacks presence in emerging market countries
COST SYNERGIES	
STRONG DISTRIBUTION NETWORKS	Mars has favorable economies of scale in purchasing raw materials and has a significant global distribution network ➢ By leveraging the low cost sourcing of raw materials and strong distribution channels, the combined entity could reduce selling, general and administrative costs
HEDGING FROM INCREASING COSTS OF RAW MATERIALS	➢ Chocolate is a large portion of Mars' portfolio. Mars would be affected by increasing costs of sugar and cocoa in 2025 and 2026. Hedges used by Mars are not expected to provide full coverage. Inclusion of Kellanova would help diversify portfolio into salty and other snacks away from chocolate ➢ With changing tariffs since 2025, increased tariffs could hurt margins of Mars as raw materials such as Cocoa and Sugar are imported

The acquisition aims to bring together two complementary snacking brands spanning the sweet, salty, health & wellness, breakfast, and gum & mints category[12].

The merger is expected to build a financially stable company by building on diverse portfolios of two well-recognized industry players. Some of the synergies from acquisition are as under[13]:

- The acquisition is expected to accelerate ambition to double Mars snacking in the next decade
- It enhances and diversifies portfolio of Mars with addition of leading brands
- Delivers stronger, differentiated portfolio and distribution platform for priority international markets
- Brings together world class talent with unrivaled brand-building experience
- Combines complementary capabilities to unlock growth and consumer centric innovation
- Enhances positive societal impact of strong sustainability effort

The acquisition also aims to develop a financially sound organization and further enhance investor confidence.

Source:
[12]Press Release of merger transaction, corporate website of Mars, dated August 13, 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https:/www.mars.com/sites/g/files/dfsbuz106/files/2024-08/Mars August Acquisition Infographic 8.13.24 FINAL%5B95%5D.pdf

Valuation of Kellanova

Valuation of Kellanova has been conducted using valuation methodologies such as fundamental analysis, comparable companies multiples and precedent comparable transactions multiples.

Fundamental valuation

Financial parameters of Kellanova have been derived using available information and market prices of Kellanova's stock. The derived financial parameters are as of June 28, 2024 since the acquisition premium has been computed based on June 29, 2024 (a weekend) financial performance. Total Debt and Number of Shares Outstanding are as of June 29, 2024 due to availability of information. Refer 'Table 9: Synthesis of financial parameters of Kellanova as of June 28, 2024' for computations of synthesized financial parameters that are used further for valuation of Kellanova. All figures in the table are represented in Billions of USD other than multiples, which are represented by 'x' sign, and per share values, which are represented by the '$' sign.

Table 11: Synthesis of financial parameters of Kellanova as of June 28, 2024 (acquisition valuation date: June 29, 2024[1])

SYNTHESIS OF FINANCIAL INFORMATION OF KELLANOVA ($ IN BILLIONS)

FINANCIAL PARAMETER	COMPUTATION PARAMETERS	TEV/ REVENUES LTM	FINAL VALUE
NET DEBT	Total debt as of June 29, 2024 (–) Cash and marketable securities	6.56 (0.28)	6.28
TOTAL REVENUE	TEV of Kellanova as of June 28, 2024 ÷ TEV / LTM Revenue of Kellanova as of June 28, 2024	27.64 2.02x	13.66
EBITDA	TEV as of June 28, 2024 ÷ TEV/LTM EBITDA as of June 28, 2024	27.64 13.48x	2.05
	Market Price per share as of June 28, 2024 ÷ P/E ratio of Kellanova as of June 28, 2024 Market Price per share as of June 29, 2024	$57.68 24.45x $62.05	$2.36 $2.54
P/E RATIO	P/E ratio as of June 28, 2024		24.45x
NUMBER OF SHARES	Number of shares outstanding as of June 29, 2024		0.34
FORWARD REVENUE	TEV of Kellanova as of June 28, 2024 ÷ TEV / Forward Revenue as of June 28, 2024	27.64 2.06x	13.40
FORWARD EPS	Market Price per share as of June 28, 2024 ÷ Forward PE of Kellanova as of June 28, 2024	$57.68 15.77x	$3.66
FORWARD EBITDA	TEV of Kellanova as of June 28, 2024 ÷ TEV/NTM EBITDA as of June 28, 2024	27.64 11.86x	2.33
MARKET PRICE PER SHARE	Market Price per share as of June 28, 2024 TTM 52-WEEK HIGH as of June 28, 2024 TTM 52-WEEK LOW as of June 28, 2024		$57.68 $80.79 $48.62

Source:
[1]Press release, corporate website of Kellanova, dated August 14, 2024: https://investor.kellanova.com/news-events/news-details/2024/Mars-to-Acquire-Kellanova-de7e19f9d/default.aspx | Definitive Proxy Statement, corporate website of Kellanova, dated August 13, 2024: chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://s203.q4cdn.com/897568180/files/doc_events/2024/Sep/kellanova-definitive-proxy-statement.pdf

Comparable companies valuation of Kellanova

Based on nature of business and products offered, 5 comparable companies have been identified for Kellanova. The 5 comparable companies are: The Campbell's Company, Mondelez International Inc, Post Holdings Inc, The J. M. Smucker Company and WK Kellogg Co. Multiples have been assessed as June 28, 2024 since the acquisition premium has been computed based on June 29, 2024 (a weekend) financial performance.

Table 12: Trading multiples of comparable companies of Kellanova

COMPANY NAME	TEV/ REVENUES LTM	TEV/EBITDA LTM	P/DILUTED EPS	NTM TEV/FORWARD REVENUE	NTM TEV/FORWARD EBITDA	NTM FORWARD P/E
THE CAMPBELL'S COMPANY	2.2x	9.5x	18.3x	2.00x	10.36x	14.24x
MONDELEZ INTERNATIONAL, INC.	2.9x	11.1x	20.9x	2.84x	13.97x	18.49x
POST HOLDINGS, INC.	1.6x	9.5x	20.0x	1.53x	8.99x	17.97x
THE J. M. SMUCKER COMPANY	2.5x	10.1x	15.3x	2.23x	9.55x	10.85x
WK KELLOGG CO	0.7x	5.2x	12.0x	0.68x	6.65x	10.54x
SUMMARY OF TRADING MULTIPLES FOR KELLANOVA						
HIGH	2.9x	11.1x	20.9x	2.8x	14.0x	18.5x
LOW	0.7x	5.2x	12.0x	0.7x	6.7x	10.5x
MEAN	2.0x	9.1x	17.3x	1.9x	9.9x	14.4x
MEDIAN	2.2x	9.5x	18.3x	2.0x	9.6x	14.2x

Table 13:Valuation multiples of Kellanova using trading multiples of comparable companies

TRADING MULTIPLE	TEV/ REVENUES LTM	TEV/EBITDA LTM	P/DILUTED EPS	NTM TEV/FORWARD REVENUE	NTM TEV/FORWARD EBITDA	NTM FORWARD P/E
TEV / REVENUE	2.0x	9.1x	17.3x	1.9x	9.9x	14. 4x
TEV / EBITDA	9.1x	18.62	6.28	12.34	0.34	36.05
NTM TEV / FORWARD REVENUE	1.9x	24.88	6.28	18.59	0.34	54.32
NTM TEV/FORWARD EBITDA	9.9x	23.09	6.28	16.81	0.34	49.10

Using the multiples derived for Kellanova in Table 12 and Table 13, valuation of Kellanova in terms of market price per share has been calculated. Refer 'Table 14: $ valuation of Kellanova using comparable companies.'

Table 14: $ valuation of Kellanova using comparable companies

TRADING MULTIPLE	MULTIPLE	TEV	NET DEBT	EQUITY VALUE (TEV – NET DEBT)	NUMBER OF SHARES OUTSTANDING (IN BILLIONS)	MARKET PRICE PER SHARE
TEV / REVENUE	2.0x	27.04	6.28	20.76	0.34	$60.65
TEV / EBITDA	9.1x	18.62	6.28	12.34	0.34	$36.05
NTM TEV / FORWARD REVENUE	1.9x	24.88	6.28	18.59	0.34	$54.32
NTM TEV/FORWARD EBITDA	9.9x	23.09	6.28	16.81	0.34	$49.10
NTM FORWARD P/E	14.4x					$52.74
P/E	17.3x					$40.81

The Net Debt and Number of Shares Outstanding of Kellanova in Table 14 has been taken from Table 11. TEV value in Table 14 is a function of multiple * LTM Revenue as of June 28, 2024 as listed in Table 11. Market Price per share has been calculated by dividing the Equity Value by Number of Shares outstanding.

The valuation of per share of Kellanova using comparable companies is low of $36.05 per share and high of $60.65 per share.

Precedent transactions valuation of Kellanova

For analyzing precedent transactions, transactions of similar nature to that of Kellanova's acquisition of Mars have been considered.
The comparable transactions valuation multiples are as under:

Table 15: Precedent transactions considered for valuation of Kellanova[8]

ANNOUNCEMENT DATE	TARGET	BUYER	SELLER	TARGET TEV ($ IN BILLIONS)	SIZE ($ IN BILLIONS)
DECEMBER 21, 2022	Dole PLC	Pale Fire Capital SE	NA	2.5	0.08
MARCH 23, 2016	Premier Foods PLC	Nissin Foods Holdings Co.,Ltd.	Warburg Pincus LLC	2.3	0.13
JULY 23, 2015	Kerry Group PLC	BlackRock, Inc.	18.59	19.34	0.13

Valuation multiples for the precedent transactions are in 'Table 16: Precedent transactions valuation multiples.'

Table 16: Precedent transactions valuation multiples

ANNOUNCEMENT DATE	TEV/LTM REVENUE	TEV/LTM EBITDA
DECEMBER 21, 2022	0.3x	7.2x
MARCH 23, 2016	1.4x	32.1x
JULY 23, 2015	2.3x	17.8x
AVERAGE	1.33x	19.03x

Table 17: $ valuation of Kellanova using precedent transactions multiples

PRECEDENT TRANSACTION MULTIPLE	MULTIPLE	TEV	NET DEBT	EQUITY VALUE (TEV – NET DEBT)	NUMBER OF SHARES OUTSTANDING (IN BILLIONS)	MARKET PRICE PER SHARE
TEV / LTM REVENUE	1.33x	18.21	6.28	11.93	0.34	$34.84
TEV / LTM EBITDA	19.03x	39.04	6.28	32.75	0.34	$95.69

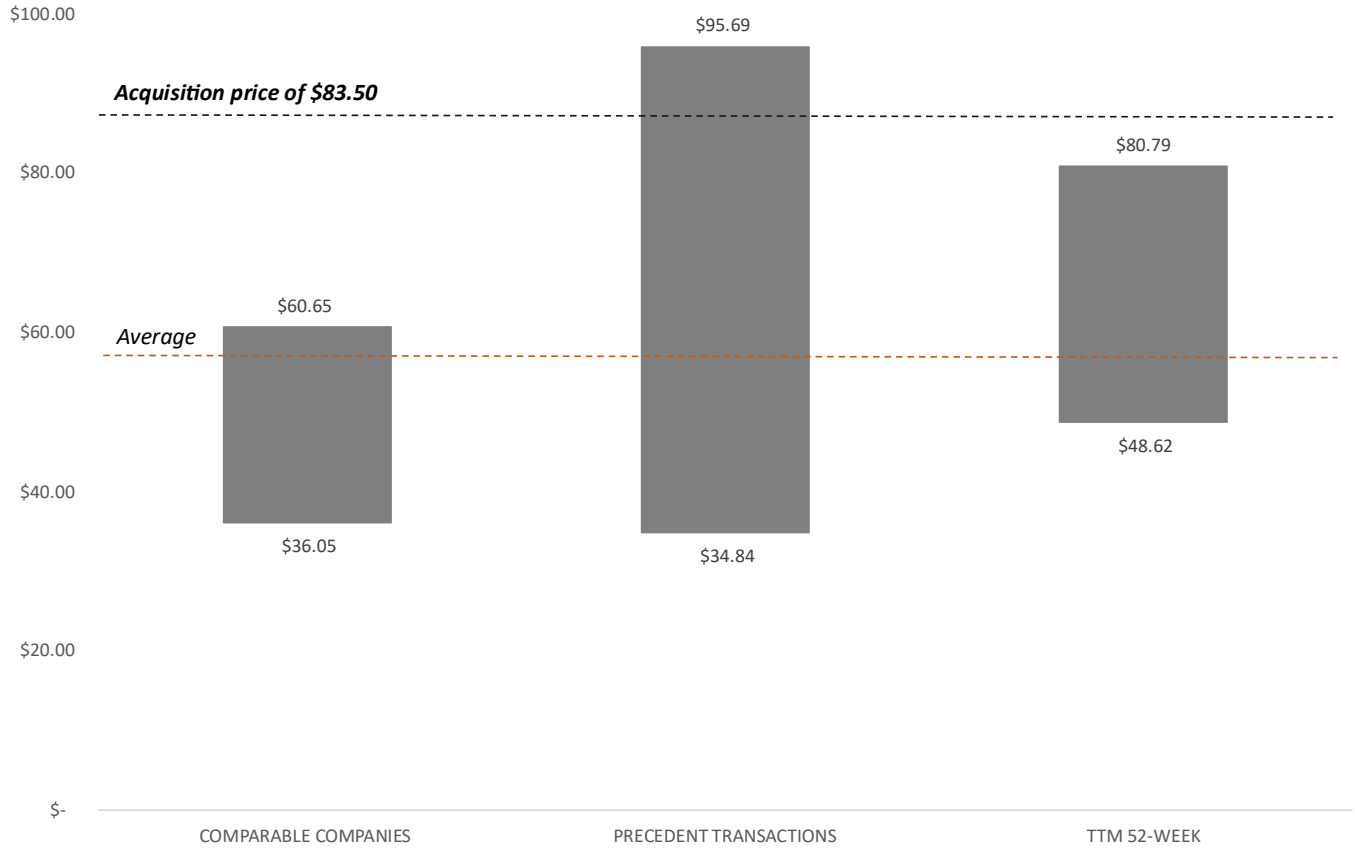
The Net Debt and Number of Shares Outstanding of Kellanova in Table 17 has been taken from Table 11. TEV value in Table 17 is a function of multiple * LTM Revenue as of June 28, 2024 as listed in Table 11. Market Price per share has been calculated by dividing the Equity Value by Number of Shares outstanding.

The valuation of per share of Kellanova using comparable companies is low of $34.84 per share and high of $95.69 per share.

Source:
[8]Capital IQ database

The football field containing range of per share valuation of Kellanova using different methodologies has been diagrammatically represented. Refer 'Figure 9: Football field for valuation of Kellanova.'

Figure 9: Football field for valuation of Kellanova



The football field contains highest value and lowest value of Kellanova from each valuation methodology, namely, fundamental valuation, comparable companies, and precedent transactions. The valuation range gives the highest value for the company and the lowest value.

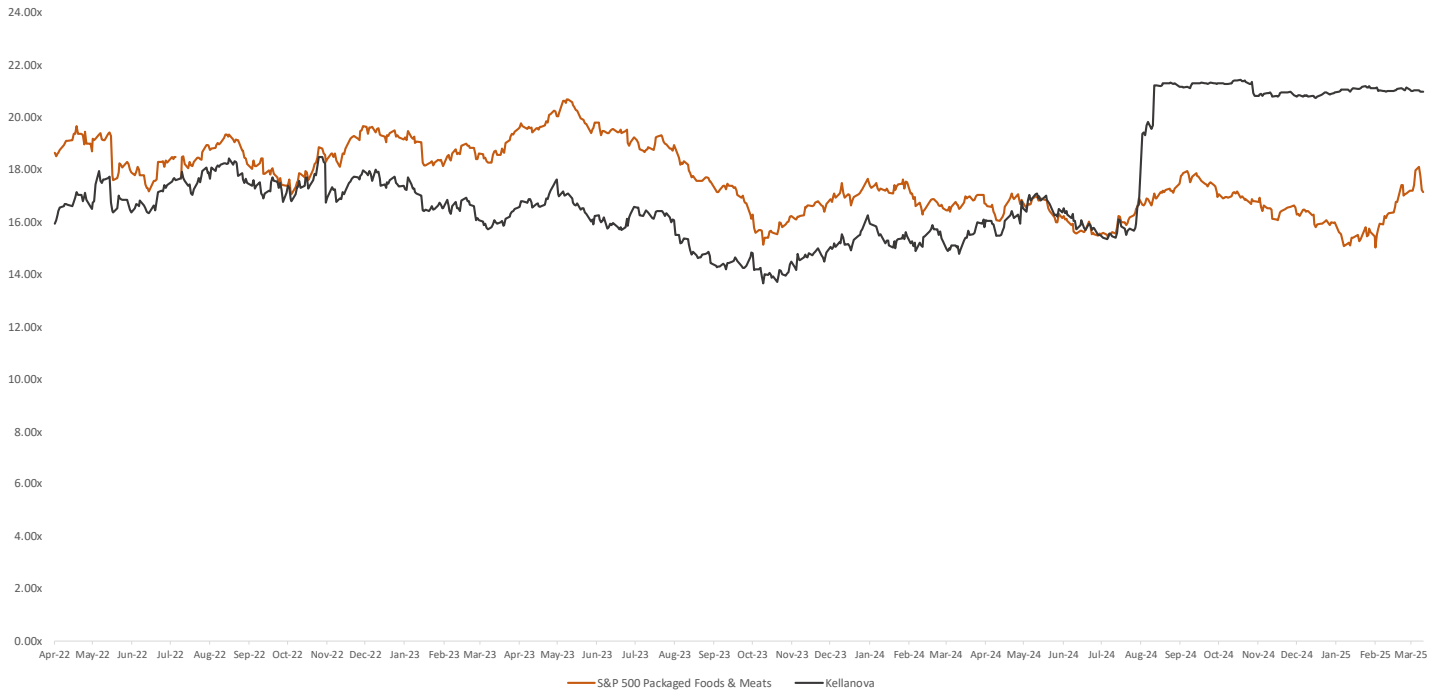
The valuation range is from $36.05 to $95.69 per share. The acquisition price is $83.50 per share, which is towards the higher end of the valuation range.

Effects of the acquisition

Market perception of the acquisition

Kellanova was a highly under-valued organization. Refer ‘Figure 10: Forward P/E of Kellanova compared to Packaged Foods & Meats industry’ for blended forward P/E ratio. The lower P/E ratio indicates lower expectations of the investors for a strong financial performance in the future.

Figure 10: Forward P/E of Kellanova compared to Packaged Foods & Meats industry

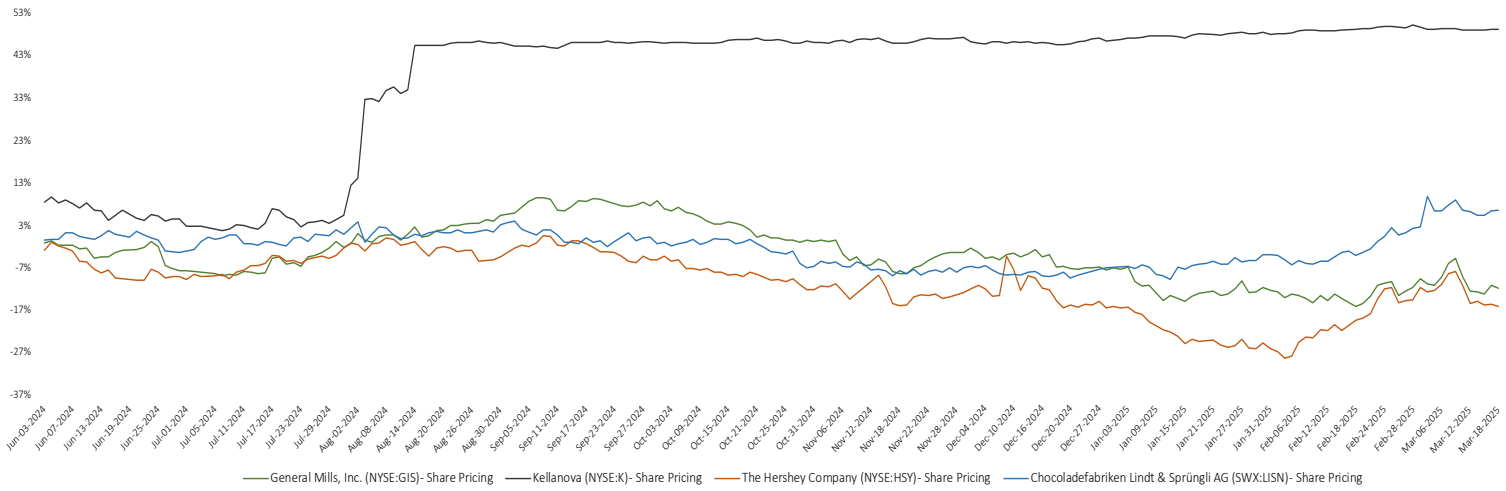


The forward P/E of Kellanova spiked post announcement of the acquisition of Kellanova by Mars. This indicates that the market perceived the acquisition positively and expects Kellanova’s acquisition deal to close at the higher valuation.

Deal premium

To analyze the premiums of the deal, changes in market prices of Kellanova and comparable companies of Mars, Incorporated have been assessed. Refer Figure 11: Deal premiums for changes in market prices of the entities.

Figure 11: Deal premiums



Capital structure and Credit Rating of Mars, Incorporated

The acquisition of Kellanova has significant implication on capital structure of Mars, Incorporated.

Mars has had a debt burden of $84.91 Billion as seen in Table 5: Financial strength of Mars, Inc, which is more than 20 times the debt on books of comparable companies of Mars Inc.

With the acquisition, Mars has agreed to take over the debt burden of Kellanova amounting to $6.56 Billion as of June 29, 2024.

The acquisition is an all cash transaction. Mars has issued Senior Notes worth $26 Billion to finance the acquisition of Kellanova and to pay acquisition related fees and expenses[13].

With a persistent heavy debt on the books of Mars, the additional debt taken over by acquisition of Kellanova and for financing the acquisition has significantly increased outflow commitments for Mars. In light of the developments, Mars is not expected to restore leverage to below 3x or sustain discretionary cash flow (DCF) to debt well above 10% until fiscal 2027[14]. Hence the credit rating of Mars has been downgraded to 'A' from 'A+.'

It is however expected that Mars would successfully integrate Kellanova and would prioritize debt reduction over the next 2 years.

Latest developments related to acquisition

Kellanova recently announced significant progress in its merger agreement with Mars as per LSEG report dated March 14, 2025[15]. Mars has commenced consent solicitations to amend existing indentures governing series of senior notes of Kellanova. The amendments aim at aligning Kellanova's financial covenants to those of Mars. The amendments are in line to enhance investor confidence and would also allow for addition of guarantees and collateral to secure investor's interests.

Source:
[13]Mars, Incorporated Annouhnces Pricing of $26 Billion of Senior Notes, press release on corporate website of Mars, dated March 5, 2025: https://www.mars.com/news-and-stories/press-releases-statements/mars-inc-announces-pricing-26-billion-senior-notes
[14]Mars Inc downgraded to 'A' on Kellanova Acquisition, S&P Global, dated February 27, 2025: https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3330545?utm_medium=cpc&utm_source=google&utm_campaign=SNL_Banker_Search_Google&utm_term=&utm_content=298712797329&gclid=EAIaIQobChMIt4TV-6PM8wIV3G1vBB1LVgzKEAAYASAAEgIVr_D_BwE
[15] LSEG report dated March 14, 2025