

Thousands of High-Paying Jobs.



November 10, 1998

Faced With Limp Pasta Sales, Hershey Plans to Sell 8 Brands

By VANESSA O'CONNELL

Staff Reporter of THE WALL STREET JOURNAL

Hershey Foods Corp., facing limp sales of macaroni, spaghetti and other noodles, said it plans to sell its pasta business, which has annual sales of about \$400 million.

Hershey, of Hershey, Pa., said it hired Goldman, Sachs & Co. to help it find a buyer for its eight regional pasta brands, including Ronzoni, Skinner and San Giorgio. A spokesman for Hershey declined to provide a price tag, or say what, if any, bids it has received thus far. But Wall Street analysts said the pasta brands might fetch about \$500 million, or about 1.2 times their 1997 sales.

Better known for its portfolio of chocolates, including Reese's peanut-butter cups and KitKat bars, Hershey is the nation's leading seller of pasta, with a 27% share of sales. Pasta accounted for 9.3% of Hershey's \$4.3 billion in sales last year. Yet Hershey's operating-profit margin for pasta is about 10%, roughly half that of candy, according to analyst Andrew Lazar of Lehman Brothers.

"After a thorough review of our strategic direction, we believe that we can generate a better return for our shareholders by focusing resources on our confectionery and related grocery and food-service businesses," said Kenneth L. Wolfe, chief executive officer of Hershey.

In New York Stock Exchange composite trading Monday, Hershey shares were unchanged at \$67.

Hershey was one of the first major U.S. companies to get into the pasta business, acquiring the San Giorgio Macaroni Co. in 1966. But recently, pasta sales overall have been flat or sliding.

Hershey, along with other brand-name pasta companies, is suffering from stiff competition from store brands and imports. While supermarket sales of Hershey's pasta brands, not including noodles, slid 1.9% in the year ended Oct. 11, according to Information Resources Inc., others fared much worse. Supermarket sales of Borden Foods Corp.'s pasta brands, including Creamette, Prince and Anthony's, plunged almost 13%, and **Bestfoods'** Mueller's pasta products fell 9.5%, partly because the company recently closed a plant and began buying pasta through a supplier. Sales percentages are for pasta only; Information Resources says noodle sales are also down.

Brands of pasta are "hard to differentiate, because a ziti is a ziti is a ziti," said John McMillin, analyst at Prudential Securities Inc. "Most people don't care what type of pasta they buy. ... They overcook it anyway."

Indeed, consumers seem to be favoring cheaper prices over big-name brands. Sales of generally cheaper generic store brands rose 3.1% during the same period, while those of Barilla, from Italy's Gruppo Barilla Pasta & Food, rose 49%, according to Information Resources. "Barilla has practically been giving its pasta away," said analyst William Leach of Donaldson Lufkin & Jenrette, referring to its comparatively low prices.

It is unclear whether existing pasta players have the appetite for Hershey's brands. Bestfoods, Englewood Cliffs, N.J., wouldn't comment on its potential acquisition plans, but said that most of its purchases to date have been overseas, and in categories other than pasta. Borden, of Columbus, Ohio, wouldn't comment. **American Italian Pasta Co.**, an Excelsior Springs, Mo., manufacturer, is not a logical buyer, according to Dave Watson, an executive vice president. "The Hershey pastas are a large branded business and we don't have a branded sales force that can support the business," he said.

URL for this Article:

<http://interactive.wsj.com/archive/retrieve.cgi?id=SB910657164434904000.djm>

Copyright © 1998 Dow Jones & Company, Inc. All Rights Reserved.

Printing, distribution, and use of this material is governed by your Subscription Agreement and copyright laws.

For information about subscribing, go to <http://wsj.com>

Close Window