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MARS, INCORPORATED

As a family-owned company for nearly a century, we are guided by our Five Principles: Quality, Responsibility, Mutuality, Efficiency and Freedom. We continually strive to put our Principles in Action in everything we do: making a difference to people and the planet through performance.

—Mars, Incorporated[1]

It had been a beautiful April in McLean, Virginia, in 2008. The last of the snow was long gone, and rain showers were few, making most days clear and warm. It was time to be outside and enjoy the spring blooms of northern Virginia neighborhoods. Instead, John Mitchell had spent the last two weeks in his office pouring over financial and nonfinancial considerations of buying Wm. Wrigley Jr. Company. As head of the M&A division of Mars, Incorporated, Mitchell always had his hands full. After all, Mars was always looking to diversify and expand its operations through acquiring other companies. Wrigley, however, was a special case. If on the following day—April 12, 2008—the Mars executive team, Mars family, and Wrigley were to come to an agreement and decide to merge the two companies, Mars would become the biggest company in the confectionery world.

Mars had been thinking about establishing a joint venture with Wrigley since 2005. A variety of options were considered but none of them led to a formal agreement. The merger idea was born when these proposals landed on Mitchell's table. After careful review, Mitchell formed a strong opinion that the major obstacle to realizing synergies with Wrigley was the Mars family's lack of desire to share any company information with the joint venture partner. The natural solution was to buy Wrigley and thus avoid any informational disclosure outside the company. Confections were also the roots of the now well-diversified Mars and had significant sentimental value. Mars continually strove to become a leader in the U.S. and European markets. The proposed Wrigley merger had the potential of turning Mars's longtime dream into a reality.

[1] Mars, Incorporated, company website, "Who We Are," http://www.mars.com/gcc/en/who-we-are.aspx (accessed November 15, 2013).

This case was prepared by George Shapovalov (MBA '10) and Elena Loutskina, Assistant Professor of Business Administration. It involves fictional individuals and hypothetical descriptions of historic business decisions and was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.

On April 1, 2008, Mars Global President and CEO Paul S. Michaels and CFO Oliver C. Goudet contacted Wrigley Executive Chairman and Chairman of the Board William Wrigley Jr. II and President and CEO William Perez. Michaels and Goudet outlined a proposal to acquire Wrigley in a merger transaction. Mars executives insisted that it was a friendly proposal but at the same time mentioned that Mars would withdraw from negotiations if Wrigley's board of directors pursued any other bidders and conducted any type of auction. The Mars team knew that if the Wrigley family, a major shareholder with 70% voting rights (**Exhibit 1**), would agree to the merger, the final SEC-mandated official recommendation to the shareholders would be a mere formality. Mars also knew that the ranks of the Wrigley family who wanted to stay in business were thinning.

The Confectionery Industry

The confectionery industry had four major sectors served by different producers: chocolate, sugar confectionery (nonchocolate candies), chewing gum, and other sugary products such as cereal bars. In the United States, there were more than 300 domestic producers of different sizes and specializations. Such a wide variety of producers supplying different items and catering to consumers' diverse tastes and demands was a unique feature of the confectionery industry.

In 2007, the global confectionery industry remained diverse and highly fragmented; many brands were sold in only one or a small number of countries and often made by family-owned companies. Such fragmentation was rather unusual for an industry where larger market share provided more leverage with retailers. The top 10 largest candy makers controlled slightly less than half (47%) of the $141 billion worldwide market. In 2007, Mars held the largest market share with about 11% of global sales, followed by Nestlé S.A. (10.3%) and Cadbury Schweppes plc (9.7%). Mars was a global leader with an ambition to outpace Hershey in its home U.S. market and regain a leading position in Europe.[2]

For a mature industry, the global confectionery market had a relatively high annual growth rate of 5.6%. Chocolate was the most lucrative sector, grabbing almost half the revenue stream. Chewing gum, however, was the fastest-growing sector. Companies offered a wide range of products competing for consumers' attention and catering to their needs. With product quality fairly even across the majority of brands, competition in the global confectionery industry was stiff, and market dynamics changed rapidly. These market dynamics forced players to diversify businesses across products, fight fiercely for old and new market positions, and pursue very creative marketing strategies. Many companies intensified cost-cutting initiatives in an effort to improve their performance.

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[2] Cadbury Schweppes annual report, 2006, http://www.investis.com/cadburyschweppes/reports/anr2006/pso/tbt (accessed October 21, 2009).

In early 2008, the global economy was facing a swiftly approaching recession. Traditionally the confectionery industry was believed to be recession-proof. More stress had a tendency to push even cost-conscious consumers toward comforting chocolate and other sugary products. Nevertheless, the industry's forecast growth was expected to significantly decelerate due to the relative market satiation and a newly emerging trend toward healthier lifestyles. The big exception was chewing gum, which analysts predicted would fit nicely with the latest consumer preferences. The popularity of a healthy lifestyle in the United States led to the strengthening of consumer preference for cereal bars and sugar-free products such as sugar-free gum. Wrigley was a leader in the effort to promote chewing gum as a component of a healthy lifestyle. The Wrigley Science Institute, an organization aiming to be "the first organization of its kind committed to advancing and sharing scientific research that explores the benefits of chewing gum,"[3] generated "independent research" supporting the health benefits of chewing gum, including diet and weight management, oral health, stress control, focus, concentration, and alertness. Cadbury pushed similar findings in support of its Trident brand.

The lion's share of confectionery revenue came from Europe (45%, including eastern Europe) and the United States (37%). The developed economies were considered to be close to market satiation and showed modest growth rates. In 2007, U.S. consumers spent $31.9 billion on confections, a 3.2% increase over the previous year. Still, there remained untapped potential to drive demand through innovation, dynamic marketing, and retail execution. The main drivers of revenue growth in the global confectionery market were the emerging markets of Asia and eastern Europe (**Exhibit 2**). The developing economies, with three-quarters of the world's population and rising per capita incomes, had huge demand growth potential. Two of the biggest emerging economies, Russia and China, were expected to show 30% annual consumption growth in the confectionery products market over the next five years. Global expansion strategies called for highly customized regional product mixes tailored to consumer preferences. The top confectionery category by sales in the United States was chocolate, while China and Russia were dominated by nonchocolate sugar confectionery (**Exhibit 3**).

Over the years, all the largest confectionery producers pursued a tremendous number of small acquisitions, expanding both geographically and across a range of products. The attempts to consolidate big players, however, were rare and very weak. In March 2002, the Hershey Trust Company, a major shareholder of the Hershey Company, put the biggest U.S. chocolate producer up for sale. The sale attracted a number of bidders including Nestlé and Wrigley, but in the end, Hershey decided not to sell. More recently, at the end of 2006, there were reports that the Hershey board had met with Cadbury Schweppes, to discuss merging the two companies to strengthen market positions. Such a merger had significant implications for the industry in general and Mars and Wrigley in particular. The combination of Hershey and Cadbury had the potential to create a new, diversified company that would probably become the unchallenged U.S. leader and a dominant global leader, leaving all other companies far behind. Mars, which competed with both companies in the chocolate category, would be forced to humble its ambitions and forget about a leading market role for a long time. Wrigley, which faced the

[3] Wm. Wrigley Jr. Company annual report, 2007.

competition of Cadbury's sugar-free gum and Hershey's chewy candy and mints, would see its revenues in serious jeopardy.

Another significant component of the competition was cost control. Despite rapidly changing raw materials costs, confectionery product prices were sticky and relatively inelastic. The industry adopted a practice of infrequent price changes coupled with downsizing the candy bars. Though rare, candy price shifts were significant and occurred only in response to reaching razor-thin margins because of permanent shifts in the costs of the core raw materials—sugar and cocoa. As a result, any negative changes in a producer's cost structure and raw material price hikes significantly influenced the bottom line. Unfortunately the supply of sugar and cocoa was unstable, which led to rather volatile prices (**Exhibit 4**).

More than 100 countries produced sugar, and almost 70% of the world's sugar was consumed in its country of origin. As a result, the price of sugar was one of the most volatile and unpredictable of all the commodity prices. In 2007 Brazil dominated international sugar markets and acted almost like a price setter. The new trend for green energy spiked the demand for sugar-based ethanol, which contributed to rising sugar prices and caused pain in many food industry subsectors. Prices normalized, however, after the interference of the international community and the United Nations in early 2008, which led to a reconsideration of the role of food as a substitution for fuel.[4]

The volatility of cocoa prices was of a completely different nature. It was mainly caused by an insufficient number of cocoa farms in the world. Around half a million small family farms, employing five million to six million farmers, produced 90% of the world's cocoa crop. Conditions for farming were harsh, and more than one-third of cocoa was lost to pests and diseases every year. Farmers received very low prices for their crops from local middlemen and did not reinvest in their farms to maintain sustainable enterprises. That, combined with increasing input costs, led to shrinking cocoa production. In 1994, in Brazil, one of the major cocoa exporters at the time, primitive methods of farming led to a fungal plant disease, witches'-broom, which destroyed 75% of the cocoa crop. Almost simultaneously, another disease destroyed the majority of cocoa plants in Malaysia. Since 1995, chocolate producers had become strongly dependent on supplies from the Ivory Coast, a region prone to political instability. Over the last decade some major chocolate players recognized the vulnerability of the industry and united in an effort to create a sustainable, globally coordinated agricultural system for cocoa production. Nevertheless, the supply system for cocoa remained rather fragile.

[4] Robin Pomeroy and Svetlana Kovalyova, "World Needs to Rethink Biofuels—UN Food Agency," http://www.planetark.com/dailynewsstory.cfm/newsid/50520/story.htm (accessed November 30, 2009).

Mars, Incorporated

Mars was established in 1911 by Frank C. Mars of Tacoma, Washington, based on an idea for manufacturing a portable version of malted milk covered with chocolate. The Milky Way bar was an immediate success and, together with Snickers, served as the foundation for the company's chocolate business. In the 1930s, Frank's son, Forrest, ventured across the ocean to the United Kingdom. He adapted the Milky Way recipe to suit European taste and the first Mars Bar was born. When Frank Mars died in 1934, Forrest Mars merged the U.S. and UK Mars companies and formed an international enterprise. In the late 1930s, under Forrest's leadership, the company started making chocolates with a protective candy coating to prevent melting; these candies were known worldwide as M&M's. Milky Way, Snickers, and M&M's created a core of Mars's snack-food business that by the end of 2007 included such brands as Twix, 3 Musketeers, Dove, Starburst, and Skittles as well as a wide variety of premium chocolates.

Success in the confectionery business allowed Mars to venture into other food sectors. In 1973, when Forrest Mars retired, his elder sons, Forrest E. Mars Jr. and John Mars, took over a company with a strong representation in rice products, pet foods, the electronic vending machine business, and soft drinks. The family continued the tradition and by 2007 had built a company with $21 billion in annual sales and 40,000 employees.[5] Headquartered in McLean, Virginia, the company operated in 65 countries and sold its products in over 100 countries.[6] *Forbes* ranked Mars the 10th-largest *private* company in the United States. Apart from well-known confectionery brands, the company made a variety of main meal foods (Uncle Ben's rice, sauces, and curries, Dolmio pasta, frozen pasta dishes, and vegetables), pet foods (Pedigree, Cesar, Whiskas, Sheba, Kitekat, Trill, Aquarian, and Winergy brands), and soft drinks for vending (Flavia and Klix brands) (**Exhibit 5**).[7] Strong brands resulted in steady revenue growth and provided the company with an array of competitive advantages.

Although it held a wide collection of businesses, Mars always aspired to remain the leading player in the U.S. chocolate market. Hershey Foods Corporation and Mars had historically fought a battle to hold the number-one spot in the U.S. candy market, an honor that passed between them a number of times over the years. In 1988, Hershey acquired the U.S. division of Cadbury Schweppes to surpass Mars in the race for U.S. market dominance. In the early 1990s, Mars introduced the hugely successful peanut butter M&M's and an assortment of other new products. But a number of Mars's mistakes and setbacks at the turn of the century secured Hershey's leading role in the U.S. candy market, positioning Mars in the back seat. Despite lagging behind rival Hershey domestically, Mars still had stronger global operations and controlled around 11% of the world's candy business.

[5] Mars, Incorporated, press release, September 25, 2007.

[6] Mars, Incorporated, press release.

[7] In 2006, Mars sold its payment-processing subsidiary, Mars Electronics International Conlux, to the investment firms Bain Capital and Advantage Partners for more than $500 million.

Despite its large size and geographic reach, Mars remained privately owned, with key management positions retained within the family. The Mars brothers had a reputation for not taking seriously any executives who did not carry the family name. It was only in 2004, with the retirement of John and Forrest Jr., that Mars passed from family leadership to nonfamily leadership, with Paul Michaels taking the position of Global Mars CEO. The Mars family held full ownership of the company and controlled major corporate events through the board of directors.

The company valued "…freedom to shape our future…[and]…profit to remain free,"[8] to such an extent that "freedom" was one of Mars's five guiding principles alongside quality, responsibility, mutuality, and effectiveness (**Exhibit 6**). Family ownership was a deliberate choice. A more unorthodox step toward freedom was the family's commitment to never finance its company with debt.

Although Mars spent millions of dollars promoting its products, the company was notoriously secretive. Former Chairman Forrest Mars had a lifelong obsession with secrecy and had refused to speak to the media throughout his life and career. When he died in 1999, the company would not give any details about his death. Family members followed the tradition of fiercely protecting their privacy. At the 50th anniversary of the M&M's launch in 1989, neither the senior nor junior Forrest Mars granted an interview. Mars never published *any* financial reports.

Strong family control promoted Mars's radically egalitarian corporate culture, which dated back to Forrest Mars Sr. At his direction, workers were called associates, and everyone—from the president down—punched a time clock. Offices were eliminated, and desks were arranged following an open-office concept. This approach provided a high level of communication among various levels of management. The company was rumored to reorganize every few years, with the purpose of reducing staff levels. Along with being very demanding of its management team, Mars also built a reputation for rewarding high-quality work with an excellent salary and benefits package and exceptional employees with rapid advancement. The company was viewed as an excellent training ground for management, with challenging work assignments that stretched the ability of personnel at all levels. A number of CEOs of large companies (especially in the United Kingdom) learned their trade at Mars, leading the company to be characterized as "Mars—The Ultimate Business School."

Wrigley

William Wrigley Jr., a very talented Philadelphia salesman, established his Chicago-based company in 1891 with $32 in his pocket. In 1893, Wm. Wrigley Jr. Company developed the classic Juicy Fruit brand that soon became the most popular variety of chewing gum in North

[8] Mars, Incorporated, *The Five Principles of Mars*, http://www.mars.com/global/assets/documents/433657mars_the_five_principles_of_mars_without_signatures_V2.pdf (accessed November 15, 2013).

America, followed by Wrigley's Spearmint and Doublemint gums. Building a presence in the chewing gum industry was challenging, and the company struggled, sometimes getting dangerously close to bankruptcy. But hard work overcame the difficulties, and the business expanded.

Wrigley Jr. had a gift for anticipating the needs of his customers and adjusting his product line accordingly. Quality was the second key to success: "Even in a little thing like a stick of gum, quality is important." Over the 20th century Wrigley expanded its chewing gum portfolio and went into the 21st century as one of the world's leading manufacturers of chewing gum, commanding 36% of the global chewing gum market in 2007.[9]

Wrigley Jr. emphasized constant innovation in every discipline of the business. Proactively identifying and responding to consumer insights was a core business strategy throughout Wrigley's 100-year history. Strong R&D capabilities enabled the company to frequently launch new products and introduce variants of existing products. Wrigley operated the Wrigley Science Institute and the Global Innovation Center, both focused on expanding the company's product portfolio. In 2007 alone, Wrigley introduced about 80 innovations in products or packaging with as much as 20% of the net sales coming from new products.[10]

Despite its public status, Wrigley had a strong family background formed through decades of family-led management. William Perez had been the first non-Wrigley family member to become president and CEO of the company in 2006. The strength of Wrigley lay not just in its core capabilities, its assets, and its profit potential—but also in the team that made things happen and the character of the company that set it apart and created competitive advantages. The majority of Wrigley executives spent decades working at the company, and the company board of directors consisted primarily of industry veterans. Strong family values led to the highest employee retention rate in Chicago, making Wrigley the area's top employer.

The company's philosophy, its drive for the highest-quality products, and its commitment to innovation allowed it to quickly expand geographically and tap into satellite confectionery product markets. In April 2008, Wrigley was the fourth-largest confectionery company, with a wide variety of product offerings including chewing gum, mints, hard and chewy candies, lollipops, and chocolate (**Exhibit 7**). The company had operations in more than 40 countries and distributed its world-famous brands in more than 180 countries. With 2007 revenues of $5.4 billion, a 15.1% increase over 2006, and an operating profit of $962.8 million, a 17.2% increase over 2006, Wrigley was a poster child for stability in financial performance. In the first quarter of 2008, Wrigley's profits were up 22%, to $0.61 a share, aided by a weak dollar and price. The stock had delivered stable returns of 9% to 10% per year over the last two decades.

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[9] In 2007, Wrigley's Extra, Eclipse, and Orbit brands became the first chewing gum brands ever to earn the Seal of Acceptance from the American Dental Association. Such highly influential recognition from the largest U.S. dental association was important not only in driving purchase intent among consumers, but also in building brand equity.

[10] Wm. Wrigley Jr. Company annual report, 2007.

Through the first three quarters of 2007, the stock went up 25%, reaching $68 per share in October (**Exhibit 8**). The current market price of $62.84 was below the peak six months earlier.

Merger Negotiations

Over the last 10 days, the Wrigley executive team, had met with Michaels and Goudet a few times. In addition to the bottom-line-number discussion, the Wrigley side was curious about Mars's plans regarding the company status postmerger. Deeply rooted in the traditions of the firm they had been building over the last 100 years, they did not want the Wrigley brand and market presence to be diluted or lost as a result of their actions or inactions. The gleaming white building on the Chicago River, the historic ballpark—Wrigley Field—that was home to the Chicago Cubs, the Wm. Wrigley Jr. Company Foundation, and sponsorship of nonprofit organizations were all part of the family's footprint inside and outside the Chicago community.[11] The Wrigley family was committed to maintaining and advancing the civic and charitable activities in which the company was involved.[12] They wanted to preserve the company name, reputation, culture, and relationships with and among the employees. They hinted that in the end they would like to see the company operate independently and retain the freedom to make its own management decisions. Wrigley Jr. II even expressed the desire to serve as an executive chairman of the company following the merger.

Mitchell knew that, in the eyes of the Mars family, it was never a merger of equals. After all, Mars's revenue base was eight times larger than Wrigley's. Mars did, however, consider Mars–Wrigley to be an extremely friendly merger. Mars understood the value of traditions and the passion behind family involvement in the business, so Wrigley's desire for independence did not take Mars by surprise. From one perspective, Mars wanted to maintain Wrigley's management structure and the chain of command, which had enhanced the company's ability to swiftly react to unanticipated market changes over the years. It was in Mars's best interest to exploit the power of Wrigley's strong name and reputation in the industry. The independence of the subsidiaries was also in line with Mars's aspiration to quickly and efficiently move innovations through the chain of command. From another perspective, such independence contradicted the Mars family's general management style. Maintaining the additional top-management team and headquarters was not aligned with the "extreme efficiency" management concept Mars relentlessly pursued.[13] The Wrigley Building, while highlighting the Wrigley family's success, was also costly, resulting in high corporate overhead. Wrigley's sales per

[11] Datamonitor, "Wm. Wrigley Jr. Company Profile," January 27, 2009.

[12] From 1965 to 1995, the Wrigley family made a series of donations to the University of Southern California, allowing it to establish the Philip K. Wrigley Marine Science Center and the USC Wrigley Institute for Environmental Studies, which was dedicated to environmental research and education. "Wrigley Company Foundation Awards Special Grants to Address Critical Global Needs in the Areas of Youth Development and Environmental Conservation," February 4, 2008, Wm. Wrigley Jr. Company press release.

[13] In 2006, Mars had even started centralizing its top divisions by reverting all the regional subsidiaries at the time to Mars, Incorporated.

employee were lower and administrative costs per employee were higher than the industry average.

Then there was the issue of share price. Mars intended to pay cash for Wrigley shares and avoid diluting the Mars family's ownership. Having significant but still insufficient cash reserves to complete the transaction, Mars anticipated that it would have to deviate from its long history of a strict no-debt policy and get a syndicated loan from Goldman Sachs and Berkshire Hathaway. As with any debt, this loan would require disclosure of company financials to the loan providers; and disclosure never came easily to the Mars family. In securing the debt, Mars had already disclosed a lot of financial information to Berkshire Hathaway. Now it was a question of how long it would have to continue doing so. A smaller debt amount would have shortened the debt repayment period and hence eliminated the prolonged disclosure.

Factors Affecting Valuation

Mitchell's team introduced about a dozen factors affecting the value of Wrigley to Mars, grouping them into three categories: (1) factors affecting Wrigley's stand-alone value, (2) synergy value from market expansion, and (3) synergy value from internal savings. During the earlier meeting, the Mars executive team had selected a few core factors in each category and asked the valuation team to revisit its analysis with a particular emphasis on these core factors. The results of the analysis, including the industry competition figures, were now lying on Mitchell's table (**Exhibits 9**, **10**, and **11**).[14]

With all the inside knowledge of the industry, the team was able to predict the company's stand-alone sales across different product segments. Due to volatile sugar prices, the earnings were a bit of a different story. Although long-term forecasts were never precise, Mars analysts were reasonably good at predicting the general trends in the sugar market. An internal analysis suggested that the biofuels-related sugar-price spike of two years earlier was not an outlier but rather a signal of how the market would move in the long term. The team expected the price of sugar to grow steadily going forward. Analysts argued that the short-term sugar price of $293 per tonne (metric ton) was reasonable to expect, but they anticipated that the price would climb to $331 by 2012 (**Exhibit 11**).

The merger with Mars was not expected to create any additional bargaining power with raw material supplies but had the potential to significantly affect Mars's and Wrigley's bargaining power with retailers. The ability to combine two sales forces and distribute an extremely diversified product portfolio through one gateway promised a boost in sales and administrative cost savings. The two companies had very little product overlap, and their products were complementary in nature. The fact that Mars and Wrigley distributed products in the same markets further played to their advantage. More interesting, the companies' sales expertise did not overlap much across geographic regions.

[14] **Exhibit 12** captures the macroeconomic and interest-rate environment of early 2008.

Despite the wide popularity of Mars and Wrigley products, both companies remained in second place in the two biggest markets—the United States and western Europe—in their respective product groups. In fact, Mars and Wrigley shared the core competitors. In the United States, Cadbury's sugar-free Trident gum still held the leading position, and Hershey led in chocolate and sugar confectionery sales. In Europe, Cadbury dominated both Mars's chocolate and Wrigley's chewing gum and sugar confectionery sales. The tough competition and strong trend toward healthier lifestyles suggested that Wrigley was unlikely to significantly boost its revenues in North America. A 1% to 2% increase was feasible but rather optimistic.

In developing countries, the picture looked a bit different. Wrigley was far ahead of any other big confectionery companies in eastern Europe, particularly Russia, while Mars lagged behind even the local chocolate producers in these regions. The major distribution channels in western Europe were small convenience shops and independent retailers (**Exhibit 3**), with which Wrigley had established long-term relationships. Such an environment proved to be challenging for Mars, which preferred to deal with big retailers. Mitchell estimated that broadening the product mix offered through its established sales network would boost Wrigley's top line by 3% to 4% in the EMEAI region (Europe, the Middle East, Africa, and India).

Mars, on the other hand, held the biggest confectionery market share in Asia. The Asian markets were least satiated and had the biggest potential, given the huge populations and incredible per capita income growth of countries such as China and India. Mars worked mostly with large retailers because they were able to ensure lower storage and store-shelf temperatures. Selling Wrigley products through Mars's established business relationships would increase Wrigley's sales by 4% to 5% in Asia. In the long term, however, Mars saw a much bigger regional role for Wrigley. The hotter climate prevented big chocolate producers from penetrating mom-and-pop stores. At the same time, nonmelting sugary products and chewing gum were well positioned to deeply penetrate the markets with rapidly rising income levels. Cadbury had been already aggressively pursuing this strategy and expanding its sales in China.

Along with the top-line boost, Mars expected to see some cost saving on the Wrigley side as a result of the merger. The unification of the two companies and their sales forces was expected to generate up to 7% savings on sales and administrative expenses. Mitchell believed the savings could reach 11% if Wrigley agreed to eliminate its Chicago headquarters. Furthermore, the greater negotiating position with retailers had the potential to reduce net working capital. At 66 days, Wrigley's cash cycle was already below the industry average, which was attributable to good relations with suppliers and distributors. But the inventory turnover of 86 days was lagging behind the competition (64 days). A joint distribution network had the potential to deliver more efficiency in managing both inventory and accounts receivable. The Mars team expected to achieve a significant reduction in the cash cycle, translating to roughly a 15% reduction in net working capital for Wrigley.

All mergers Mitchell had brought to life over his tenure at Mars were followed by "trimming the fat" in the new company. The biggest savings generator was eliminating redundant positions and implementing layoffs, starting with the most expensive top managers and ending with bottom-level employees, who were less expensive but sometimes let go in large numbers. Such cost cutting could be very painful in Wrigley's case. The executives were well protected by "golden parachutes" with severance payments totaling about $100 million and options that would be triggered by the merger resulting in about $210 million in payments.

Finally, Mitchell viewed transferring the management and production of two of Mars's sugary brands, Skittles and Starburst, to Wrigley as a value-generating opportunity. At the moment, Wrigley had enough spare capacity in its production facilities to start producing both candies without almost any capital expenditures. Mitchell estimated that transfer would allow Mars to save about $50 million (on an after-tax basis) by liquidating or repurposing the production lines currently used for Skittles and Starburst.

Wrigley's expected benefits from the merger with Mars were significant. But Mars was well positioned to reap some benefits as well. The Mars family, however, was adamant about not considering any synergy value or benefits to Mars's product lines as a result of the merger. The family was already going out on a limb by raising debt for the proposed transaction; it had no desire to open discussions about benefits to its sugary and nonsugary product lines. Mitchell attributed such behavior to the family's unwillingness to discuss Mars operations. During previous meetings between the two companies, Mars's executive team remained unresponsive to Wrigley's request to evaluate benefits to Mars. In Mitchell's opinion, the company was well positioned to acquire any other big player in the confectionery industry and would realize benefits irrespective of the target.

Conclusion

Despite the attention the Wrigley family members paid to maintaining the heritage of their family business, Mitchell believed the conversation with Mars had gone so far because the family wanted to cash out. The following day, April 12, 2008, Wrigley's board of directors was to meet with Mars to decide the fate of the proposed merger. For companies such as Mars and Wrigley, each with a long history and family culture and traditions, the decision to merge did not merely depended on quantitative factors, but also on sentiment. Mitchell knew the discussion would be intense, so he worked hard with his team to prepare for it.

Exhibit 1

MARS, INCORPORATED

Wrigley Stock Beneficial Owners

The company's records and other information available from outside sources indicated that the following stockholders were beneficial owners of more than 5% of the outstanding shares of the company's Common Stock or Class B Common Stock. The information below is as reported in its filings with the Securities and Exchange Commission. The company is not aware of any other beneficial owner of more than 5% of either class of the Company's Common Stock. Due to their substantial stock holdings, the below-listed stockholders may each be deemed a "control person" of the company under applicable regulations of the Securities and Exchange Commission.

	Amount and Nature of Beneficial Ownership			
	Common Stock		**Class B Common Stock**[b]	
Name[a]	**Shares (#)**	**Percent of Class (%)**	**Shares (#)**	**Percent of Class (%)**
William Wrigley Jr.	8,839,987	4.09	25,454,175	45.8
William J. Hagenah III	7,795,164	3.60	11,862,346	21.34
Capital Research Global Investors	14,824,100	6.85	0	0
AXA Financial, Inc.	27,617,125	12.76	0	0

(a) Due to their substantial stock holdings, the below-listed stockholders may each be deemed a "control person" of the company under applicable regulations of the Securities and Exchange Commission.
(b) Class B Common Stock is not traded. Class B Common Stock is entitled to 10 votes per share, is subject to restrictions on transfer or other disposition, and is at all times convertible on a share-for-share basis into shares of Common Stock.

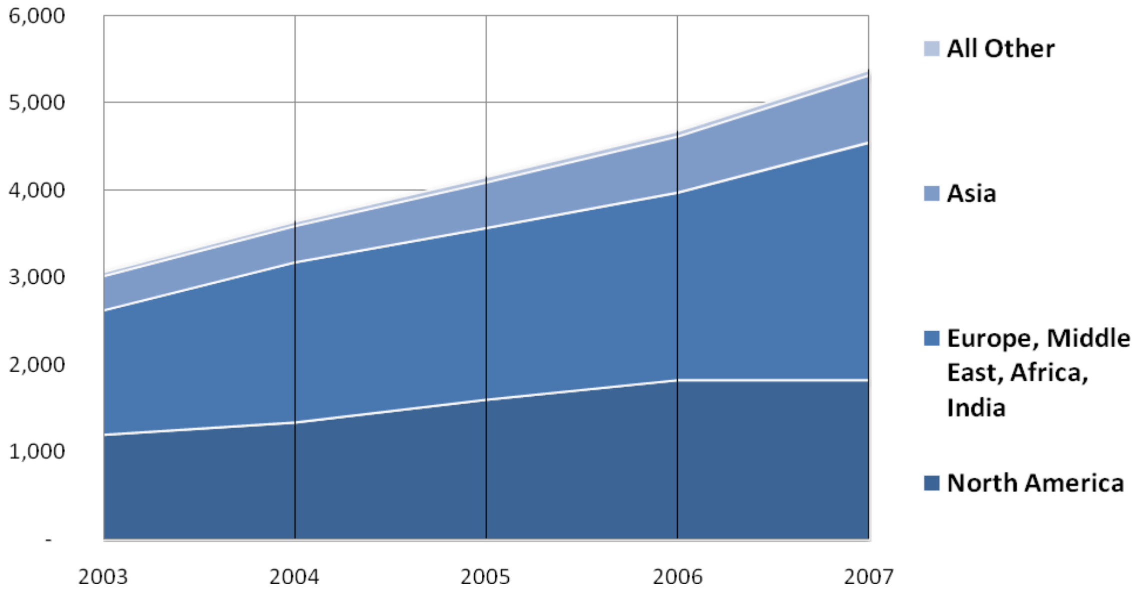
Data source: Company preliminary proxy statement (May 2008).

Exhibit 2

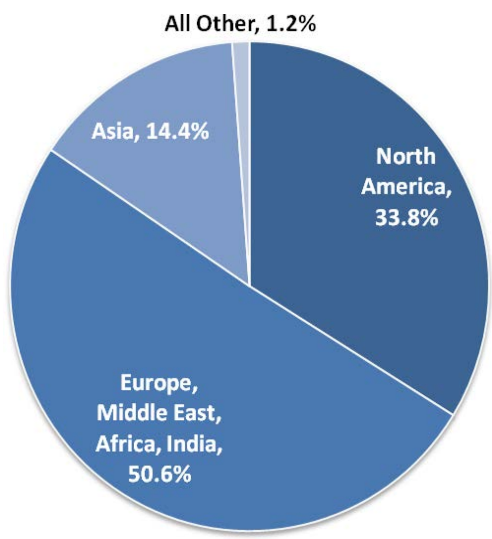
MARS, INCORPORATED

Wrigley Company Revenues Regional Structure

Revenue Growth in Different Regions



Revenue Structure by Region, 2007



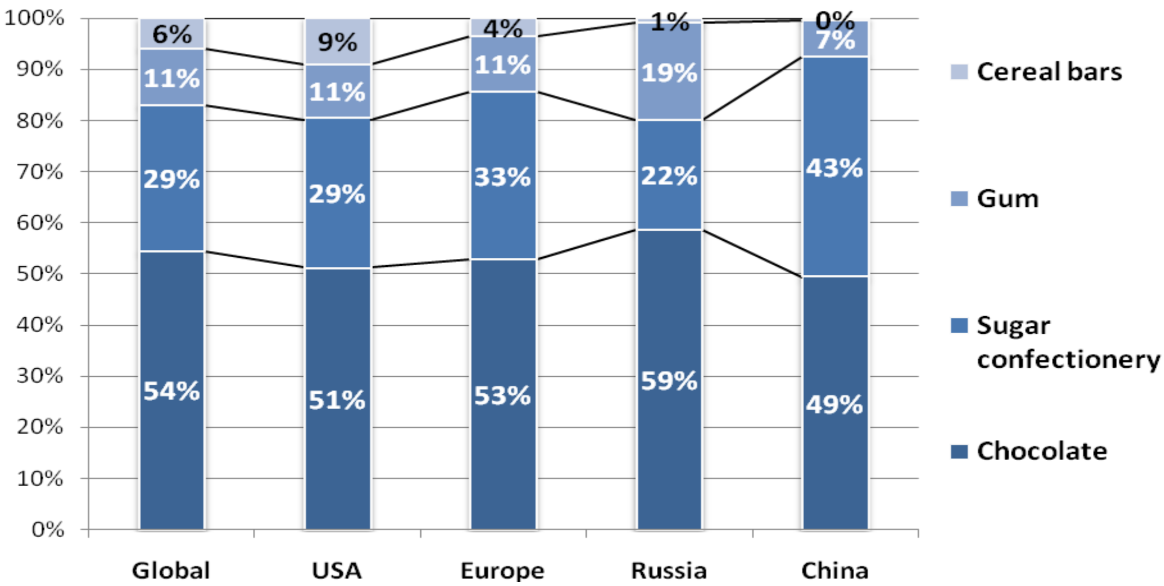
Data source: Wm. Wrigley Jr. Company annual report, 2007.

Exhibit 3

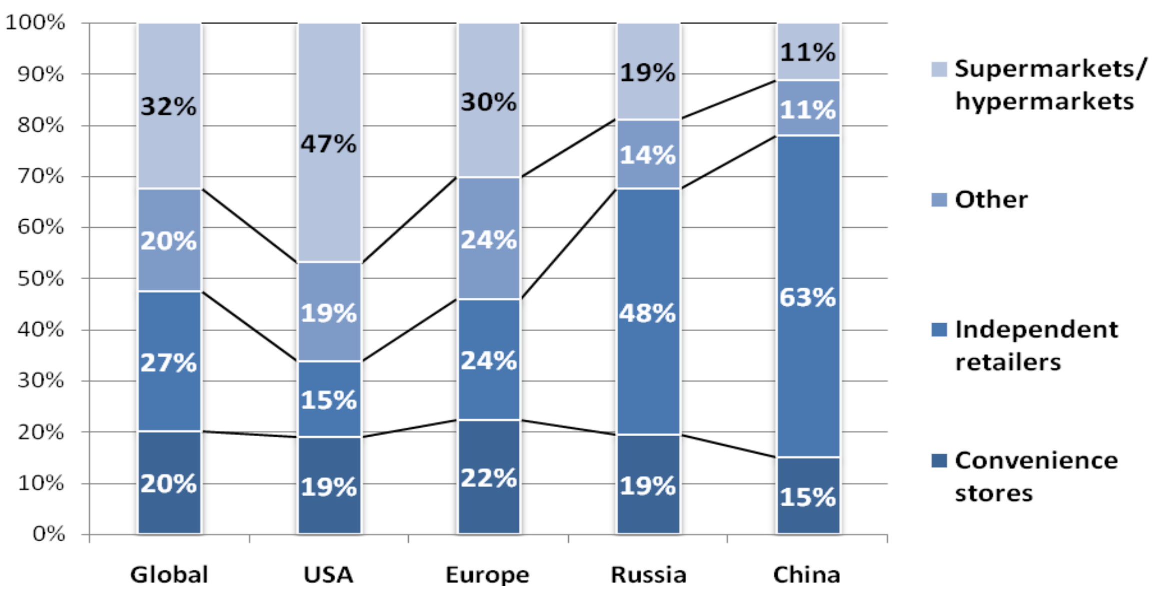
MARS, INCORPORATED

Global and Regional Confectionery Markets

Market Segmentation by Product Category



Market Segmentation by Product Distribution



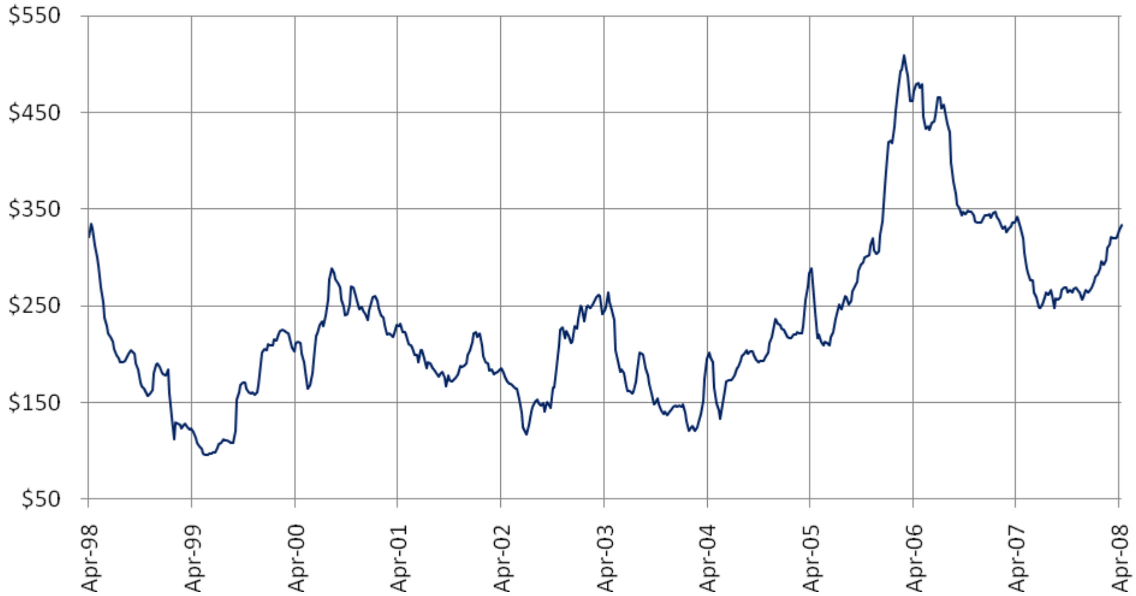
Data source: Datamonitor.

Exhibit 4

MARS, INCORPORATED

Historical Sugar and Cocoa Prices
(in dollars per tonne)

Historical Sugar Prices



Historical Cocoa Prices

Data source: Yahoo! Finance.

Exhibit 5

MARS, INCORPORATED

Mars, Incorporated, Products and Brands

Products:	**Brands:**
• Beverages	• Cesar
• Condiments	• Dove
• Confectionery	• Flavia
• Entrees	• M&M's
• Foods	• Mars
• Granola	• Pedigree
• Ice Cream	• Royal Canin
• Pet food	• Sheba
• Rice	• Skittles
• Sauces	• Starburst
• Savory	• Twix
• Snacks	• Uncle Ben's
	• Whiskas

In addition, Mars, Incorporated, provided veterinary services through its Mars Veterinary division.

Source: Company website.

Exhibit 6

MARS, INCORPORATED

Mars, Incorporated, Guiding Principles

Quality: Quality is the first ingredient of quality brands. The consumer is our boss, quality is our work and value for money is our goal.

Responsibility: All associates are asked to take direct responsibility for results, to exercise initiative and judgment, and to make decisions as required.

Mutuality: A mutual benefit is a shared benefit and a shared benefit will endure.

Efficiency: Use resources to the full capacity, waste nothing and do only what we can do best in order to maximize productivity.

Freedom: We need freedom to shape our future and profit to remain free. Family ownership was a deliberate choice.

Source: Mars, Incorporated, *The Five Principles of Mars*.

Exhibit 7

MARS, INCORPORATED

Wm. Wrigley Jr. Confectionery Product Groups and Brands

Products:
- Chocolate
- Chewing Gum
- Gummies
- Hard and chewy candies
- Lollipops
- Mints
- Pastilles

Brands:
- 5
- Airwaves
- Altoids
- Big Red
- Boomer
- Cool Air
- Creme Savers
- Doublemint
- Eclipse
- Excel
- Extra
- Freedent
- Hubba Bubba
- Juicy Fruit
- Life Savers
- Lockets
- Lucas
- Orbit
- PK
- Pim Pom
- Solano
- Sugus
- Winterfresh
- Wrigley's Spearmint

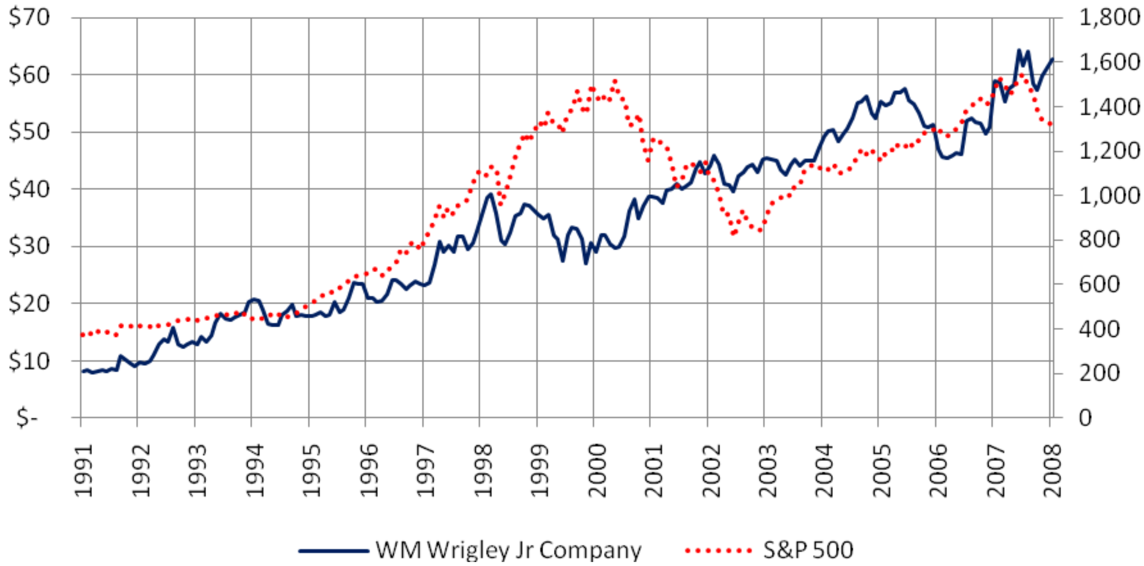
Source: Company website.

Exhibit 8

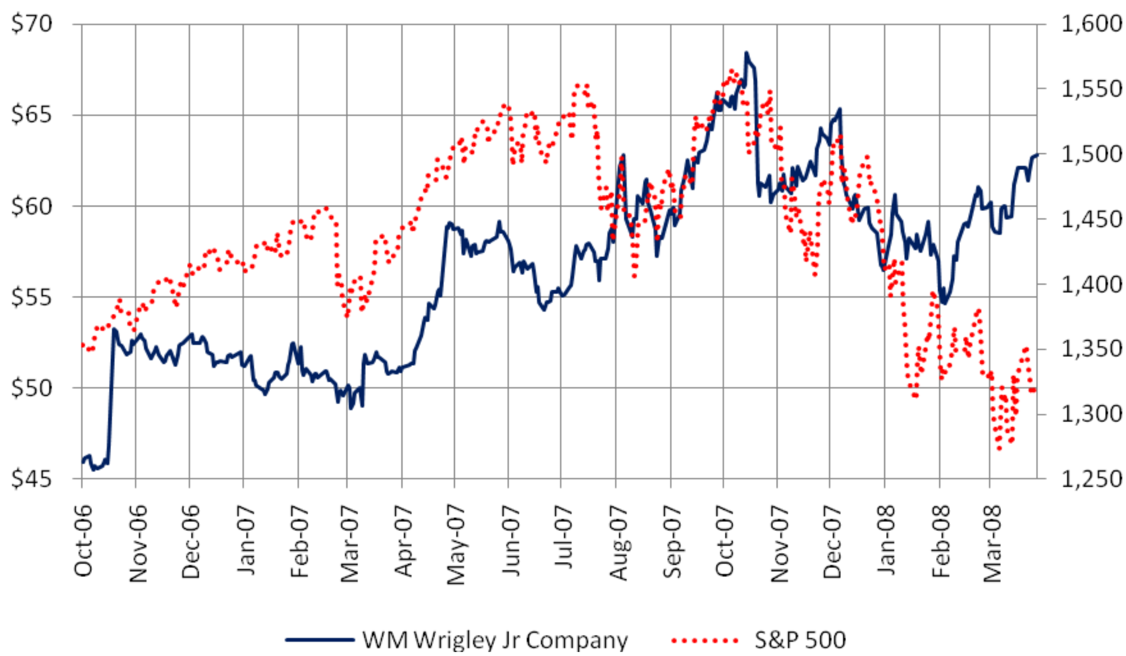
MARS, INCORPORATED

Wrigley Stock Performance

Long-Term Stock Performance



Previous Year's Stock Performance



Data source: Yahoo! Finance.

Exhibit 9

MARS, INCORPORATED

Wrigley Selected Financial Data
(all numbers, except per share numbers, in millions of dollars)

Operating Data	**2003**	**2004**	**2005**	**2006**	**2007**
Revenues	3,069.09	3,648.59	4,159.31	4,686.01	5,389.10
Gross profit	1,792.35	2,038.61	2,255.90	2,429.82	2,840.78
Income taxes	205.65	227.54	237.41	239.67	300.16
Net earnings	445.89	492.95	517.25	529.38	632.01
Per share of common stock (diluted)	1.59	1.75	1.83	1.90	2.28
Dividends paid					
Per share of common stock	0.69	0.74	0.86	0.99	1.13
As a percentage of net earnings	44%	42%	47%	52%	49%
Average shares outstanding	281,204	280,796	280,964	277,556	275,357

Other Financial Data	**2003**	**2004**	**2005**	**2006**	**2007**
Net property, plant and equipment	956.18	1,142.62	1,282.41	1,422.52	1,560.06
Total assets	2,520.41	3,166.70	4,460.20	4,661.60	5,231.51
Working capital	825.80	787.94	325.28	454.10	448.66
Debt	0.00	90.00	1,100.00	1,065.00	1,000.00
Stockholders' equity	1,820.82	2,178.68	2,214.42	2,388.09	2,817.48
Return on average equity	24%	23%	23%	22%	22%
Stockholders of record at close of year	40,379	40,779	40,545	40,986	41,020
Employees at close of year	12,000	14,800	14,300	15,800	16,400
Sales per employee	0.26	0.25	0.29	0.30	0.33

Data sources: Wm. Wrigley Jr. Company annual report, 2007, and case writer estimates.

Exhibit 10

MARS, INCORPORATED

Confectionery Industry at the Beginning of 2008
(in millions of dollars)

	Revenues	Operating Margin	Net Income	EBIT	LT Debt	Current Assets	Current Liabilities	Employees
Cadbury plc	15,855	13.2%	1,567	2,088.00	2,383	5,171	9,178	36,460
Kraft Foods Inc.	37,000	16.5%	2,850	6,105.00	10,600	9,544	10,194	90,000
Lance, Inc.	765	9.0%	25	68.85	50	142	77	4,800
The Hershey Company	4,947	24.0%	480	1,187.28	1,280	1,427	1,619	12,800
Tootsie Roll Industries, Inc.	493	20.0%	55	98.60	-	233	77	1,950
Wm. Wrigley Jr. Company	5,389	17.9%	632	964.65	1,000	1,579	1,189	16,400
General Mills, Inc.	11,640	20.8%	1,144	2,421.12	3,599	3,844	6,223	28,500
Mars, Incorporated	25,000	n/a	n/a	n/a	n/a	n/a	n/a	48,000

	Market Cap	Shares	Stock Price	PE Ratio	Bond Rating	Beta	Dividend Yield	Tax Rate
Cadbury plc	26,046	2,109,000,000	12.35	16.6	Aa	0.95	2.1%	30.0%
Kraft Foods Inc.	46,230	1,547,200,000	29.88	16.2	Aaa	0.75	3.6%	35.5%
Lance, Inc.	594	31,204,418	19.05	23.8	n/a	0.90	3.4%	37.0%
The Hershey Company	8,144	227,049,657	35.87	17.0	Aa	0.70	3.3%	36.0%
Tootsie Roll Industries, Inc.	1,368	54,941,131	24.90	24.9	n/a	0.85	1.3%	33.0%
Wm. Wrigley Jr. Company	15,899	275,742,319	57.66	25.2	A	0.70	2.2%	32.0%
General Mills, Inc.	17,761	336,000,000	52.86	15.5	A	0.65	3.1%	34.3%

Data sources: Value Line Investment Survey, February 1, 2008, and case writer estimates.

Exhibit 10 (continued)

Cadbury plc was in the global confectionery business. It offered chocolate, mints, gum, and other candy under a variety of brand names (Cadbury Creme Egg, Dentyne, Eclairs, Green & Black's, Halls, the Natural Confectionery Company, and Trident, to name a few). Based in Uxbridge, London (in the United Kingdom), Cadbury was founded in 1783.

Kraft Foods Inc. manufactured and marketed packaged-food and grocery products worldwide. The company made snacks, including cookies, crackers, and chocolate confectionery; beverages; cheese; and other grocery products. It also offered convenient meals, packaged dinners, lunch combinations, and processed meats. Kraft marketed its products under various brand names, including Nabisco cookies and crackers; Kraft cheeses; Oscar Mayer meats; Philadelphia cream cheese; Maxwell House coffee; its Oreo cookie brand; Milka chocolates; and LU biscuits.

Lance, Inc., based in North Carolina, engaged in the manufacture, marketing, and distribution of various snack food products. It offered sandwich crackers and cookies, potato chips, crackers, cookies, other salty snacks, restaurant-style crackers, and candy. The company also provided private-brand products to grocery stores, mass merchandisers, and discount stores using store brands or Lance brands.

The Hershey Company engaged in the manufacturing, marketing, selling, and distributing of various chocolate and confectionery products, food and beverage enhancers, and gums and mints. Its chocolate and confectionery products included chocolate bars and cocoa mixes, handcrafted chocolate gifts, and natural and organic chocolate products. The company's snack foods included snack mix, cookies, granola bars, and a variety of cookies.

Tootsie Roll Industries, Inc., produced candy, caramel, and sugar-based confectionery under various trademarks, including Tootsie Roll, Tootsie Roll Pops, Charms, Blow Pop, Junior Mint, Charleston Chew, Sugar Daddy, Sugar Babies, Andes, Cry Baby, and Nik-L-Nip.

General Mills, Inc., engaged globally in the manufacture and marketing of branded consumer foods. The company also supplied branded and unbranded food products to the food service and commercial-baking industries. Its product line was composed of cereals, yogurt, soup, dry dinners, shelf-stable and frozen vegetables, refrigerated and frozen dough products, dessert and baking mixes, frozen pizza, grains, fruit and savory snacks, and ice cream and other frozen desserts, as well as various organic products, including granola bars and cereal.

Source: Yahoo! Finance, December 2009, and company websites.

Exhibit 11

MARS, INCORPORATED

Financial Forecast for Wrigley, Stand-Alone Valuation
(in millions of dollars)

	2006	**2007**	**2008F**	**2009F**	**2010F**	**2011F**	**2012F**
Sugar prices (dollar/tonne)	416	288	293	303	312	322	331
Sugar (in millions of tonnes)	1.5948	2.6387	2.9266	3.0203	3.1008	3.1792	3.2717
Revenues by regions							
North America	1,822	1,823	2,011	2,096	2,183	2,265	2,353
EMEAI	2,153	2,726	3,080	3,472	3,882	4,357	4,879
Asia	648	777	876	965	1,061	1,168	1,287
All other	63	63	72	79	90	103	117
Revenues	4,686	5,389	6,039	6,613	7,215	7,893	8,635
COGS							
Sugar		761	857	915	967	1,024	1,083
Other		1,775	2,047	2,278	2,515	2,795	3,098
Total COGS		2,535	2,904	3,193	3,483	3,818	4,181
SG&A		1,891	2,114	2,315	2,525	2,755	3,005
Operating income		963	1,021	1,105	1,207	1,320	1,449
NOPAT		655	694	751	821	898	986
Depreciation		51	193	156	158	163	160
CapEx		189	325	340	356	373	390
Changes in NWC		(5)	134	(41)	40	50	30
FCF			428	608	583	638	726
Net PPE	1,423	1,560	1,692	1,876	2,074	2,284	2,513
Net PPE as percentage of sales	30.4%	28.9%	28.0%	28.4%	28.7%	28.9%	29.1%
NWC	454.10	448.66	582.30	541.77	581.93	631.52	661.76
NWC as percentage of sales	9.7%	8.3%	9.6%	8.2%	8.1%	8.0%	7.7%
Tax rate	32%						

Data sources: Company proxy statement (August 2008) and case writer estimates.

Exhibit 12

MARS, INCORPORATED

Bonds Market Interest Rates, April 2008

Corporate bonds

Aaa	5.55%
Aa	5.93%
A	6.30%
Baa	6.97%

Data source: Mergent Bond Record, April 2008.

Treasury bills

1-month	1.07%
3-month	1.31%
6-month	1.58%
1-year	1.74%
2-year	2.05%
3-year	2.23%
5-year	2.84%
7-year	3.19%
10-year	3.68%
20-year	4.40%
30-year	4.44%

Data source: U.S. Treasury.

Market Risk Premium	6%

Source: Case writer estimates.