The Kraft and Heinz merger: UK shareholders – Food for thought

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With changing tastes in the American food market calling for fresher, healthier foods, many of the old food industry giants of the US have seen a downturn in profits. This has in turn seen a desire by many to consolidate the market.

The most recent example of this was announced towards the end of March with the Kraft and Heinz merger, which will now be the third largest food company in America and the world's fifth.

What has this got to do with the UK market you may wonder? Well for those of you with active Kraft shares, the share registrars will likely keep you up to date with developments as the details of the merger are agreed upon and the process progresses. However, there are still a large number of UK individuals who do not realise that they too hold shares in Kraft, or entitled to shares in Kraft, due to investments in Cadbury's –Schweppes.

The Kraft and Heinz merger: Implications on UK shareholders

Cadbury's-Schweppes shares were for many years a popular stock to invest in, with Cadbury being a continuous constituent of the FTSE 100 from the index's creation in 1984 until Cadbury was bought by Kraft Foods in 2010.

Cadbury's-Schweppes demerged in 2008, with the drinks side of the business becoming Dr Pepper Snapple. At that time, shareholders of the Cadbury's-Schweppes shares were awarded new shares in Cadbury's (later Cadbury) and shares in Dr Pepper Snapple. Dr Pepper Snapple shares are registered in the US, and therefore subject to different regulations and requirements in connection with administration of those shares.

Later, in 2010, it was announced that Kraft had bought Cadbury. The Cadbury shares were then delisted, with shareholders being awarded a cash entitlement for the shares, in addition to being provided with shares in Kraft, again, a US company with US regulations.

Further, in 2012, Kraft announced a spin-off of the grocery section of their business. This new spin-off company took the Kraft name, with the old company, which was now mostly concerned with confectionary, adopting the new name Mondelēz International, Inc. Following this spin-off, shareholders in Kraft held shares in the new spin-off Kraft company and the newly named Mondelēz International, Inc.

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Therefore, in the space of just 4 years, UK investors in Cadbury's-Schweppes suddenly found themselves as investors in three US companies: Dr Pepper Snapple; Kraft and Mondelēz International.

Historically these shares have performed well, with attractive dividend payments, meaning that many people have been happy to keep hold of these shares. Issues have only arisen when the investor has required a change to the registration on the stocks, due to the very different documentary requirements in place for US shares. All of a sudden, Medallion Signature Guarantees became a necessity, something that the UK shareholders had probably never had to worry about before.

Navigating the Challenges of International Shareholding

These elusive Medallion Guarantees, which are a mandatory requirement for the administration of any North American stocks, caused all kinds of issues for UK investors, particularly in the recent past when there have been two long periods where UK shareholders were unable to obtain the required Medallion stamps due to regulatory issues with previous providers to the UK market.

Thankfully, there are now new providers in place for the UK market, so obtaining Medallion Signature Guarantees is once again possible for UK shareholders of US stocks.

With the announcement of this new Kraft and Heinz merger, those that have not yet dealt with their entitlement to Kraft shares from their ownership of Cadbury investments will likely find that further papers will need to be completed to claim the entitlements under this new merger, as each shareholder of Kraft will not only get new shares in Kraft-Heinz, but also a special dividend of $16.50 per share. If the Kraft shares are not already in the name of the rightful owner at the time of the change and when the payments out to current shareholders are made, and a claim for these is made at a later date, it may be that a similar claim procedure to that used for Cadbury entitlements will have to be complied with to receive any cash.

Many are now speculating as to who will be next to consolidate in this market, with predictions that a buyout in this area could be on the cards very soon. If this is the case, it could again see overseas shareholders suddenly finding themselves with US shares.

Assistance for Shareholders

If you are dealing with the administration of an estate where you think you may have to comply with US requirements and regulations to attend to stocks and shares, please get in touch with Lester Aldridge to discuss the services that we can offer to assist you with this process.

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