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Fenwick Advises Diamond In $2.3B Pringles Purchase

By **Pete Brush**

Law360, New York (April 5, 2011) -- Ohio's Procter & Gamble Co. said Tuesday it would sell its $2.35 billion Pringles brand to California-based Diamond Foods Inc. in a deal that contemplates an exchange of stock and the snack specialist's assumption of $850 million in debt.

The companies said they would execute the merger by creating a separate entity to hold the potato crisp business and allowing P&G shareholders to participate in an exchange for 29.1 million Diamond Foods shares worth $1.5 billion.

Diamond Foods investors couldn't resist the Pringles deal Tuesday, sending the company's stock up more than 6.7 percent to $61.06 per share.

That was at least in part because, according to Stockton, Calif.-based Diamond Foods CEO Michael J. Mendes, the purchase would boost the company’s per-share earnings by 30 percent next year and would allow it to pay down its debt.

"Not only is this combination immediately accretive, it also creates a platform that we believe will allow us to build shareholder value for years to come," Mendes said.

Pringles is the world's largest potato crisp brand with sales in more than 140 countries and manufacturing operations in the U.S., Europe and Asia. Diamond said Pringles' global manufacturing and distribution base would allow it to increase its sales of other snack brands like its Kettle-brand potato chips and Emerald-brand nuts.

Cincinnati-based brand behemoth P&G, meanwhile, said the deal as structured would yield a one-time earnings increase of about $1.5 billion and also would reduce its total number of outstanding shares, boosting their value, while diluting future earnings by only a small percentage. The company’s shares traded downward by less than 1 percent Tuesday.

The deal marked a major play for Diamond Foods, but the much-larger P&G — with a market capitalization of more than 100 times the size of its partner — saw the deal as a strong tax write-off opportunity.

The companies referred to the transaction as a Reverse Morris Trust, in which P&G shareholders will end up owning the Pringles spin-off entity prior to its sale to Diamond Foods. P&G said the result would be big tax savings.

The fine details of the transaction have yet to be worked out, the companies said.

Depending upon the value of Diamond Foods shares when the exchange offer begins, it could find itself assuming as much as $200 million more — or reducing by as much as $150 million — the amount of debt it will take on, the companies said.

The transaction is subject to approval by Diamond Foods shareholders and regulatory approval. The companies said they wanted to get it done by the end of 2011.

Diamond Foods was advised by Fenwick & West LLP.

P&G was advised by Jones Day and Cadwalader Wickersham & Taft LLP.

--Editing by Lisa Uhlman.