



January 14, 2010

New York Stock Exchange Company To Acquire [K-Tron International, Inc. \(NASDAQ: KTII\)](#) For \$150.00 Per Share:

On Monday, January 11, 2010, [Hillenbrand, Inc. \(NYSE:HI\)](#), owner of the [Batesville Casket Company](#), announced that it had signed a definitive merger agreement with [K-Tron International, Inc. \(NASDAQ: KTII\)](#) to pay \$150.00 per share for all of the outstanding shares of [K-Tron](#). The boards of directors have unanimously approved the merger, which will close on March 10, 2010.

The \$150.00 per share price is a 32.1 per cent premium over the closing price of \$113.52 of [K-Tron](#) shares on Friday, January 8.

The marriage between [Hillenbrand](#) and [K-Tron](#) surprised me at first, but later I began to appreciate its logic. [Hillenbrand](#), the market leader in what is euphemistically called the deathcare industry, makes burial caskets, cremation caskets, containers, and urns, and other memorialization products.

[K-Tron](#), on the other hand, makes gravimetric (mixing and weighing) and volumetric (measuring and pouring) machines, serving the candy and packaged food industries, the pharmaceutical industry, the coal industry, and others. There seemed to be little synergy for the two companies. One plus one, it appeared to me, would equal two. There would not be the one plus one equals three circumstance that develops from a shrewdly calculated merger.

Kenneth Camp, [Hillenbrand's](#) CEO, however, explained the logic of the merger as follows, clarifying the companies' thinking: "...Although [K-Tron's](#) products differ from ours ... we are both manufacturing companies that share similar processes" Translated, [Hillenbrand](#) believes that it can incorporate some of [K-Tron's](#) manufacturing know-how into its businesses, as well as get a company that is a market leader in many fields.

[K-Tron](#) possesses a reputation for making high-quality machines that are indispensable in weighing (gravimetric) and measuring (volumetric) ingredients. These machines enable [Novartis \(NYSE:NVS\)](#) or [Johnson & Johnson \(NYSE:JNJ\)](#) to make pills that enjoy a high quality uniformity time after time, or one pill after another. [K-Tron](#) does the same thing for [The Hershey Co. \(NYSE:HSY\)](#). Consumers expect each [Hershey](#) chocolate bar to look the same, to taste the same, to feel the same, and to produce the same euphoric or pleasant effect each time they eat one. To do all this, [Hershey](#) relies on [K-Tron](#).

On July 18, 2008, I wrote an investment letter on [K-Tron](#). Excerpts from that letter follow:



K-Tron International, Inc.: Business Summary

K-Tron machines are indispensable in the creation of brand-name foods and pharmaceuticals. K-Tron designs, engineers, and manufactures mixing and pouring machines that work either by gravity or by volume. (The company calls these gravimetric and volumetric machines.) Precisely measuring and weighing all ingredients, K-Tron machines move ingredients from one container or vessel to another during the manufacturing or production process, doing this work for consumer goods and for pharmaceuticals companies, and for many other industries as well. K-Tron machines assure that the same ingredients, in the same proportion and with the same weight, go into each unit, assuring a product with virtually one hundred percent consistency, or one of supremely high quality and uniform character, a consistency and character that the consumer expects, whether the product be aspirin, cereal, ibuprofen, Imodium A-D, tortillas, or thousands of other mass produced products.

Below is the Investment Thesis from the July 18, 2008 letter:

K-Tron International, Inc.: Investment Thesis Why Uniform is Good

A Hershey chocolate bar with almonds must contain sugar, milk, chocolate, cocoa butter, lactose, milk fat, soy lecithin and PGPR, emulsifiers, vanillin and artificial flavor, and almonds in the exact proportion as the bar that preceded it, and the bar that followed it, along the conveyor belt in Hershey's plant in Hershey, PA.

The Hershey bar sold in Cedar Rapids, Iowa must have the same feel in the hand, the same taste, the same look, the same feel in the mouth or mouthfeel as the Hershey bar sold in Stuttgart or in London, or in Miami. The bar must conform to a high standard and be uniform in every respect.

I recall a trip that I took several years ago to the Hershey factory in Hershey, Pennsylvania. There I watched as the almonds were mixed into the chocolate. The precision with which other ingredients were melded into the final product was impressive. If any bar looked different from the expected standard, either a man or a woman, each wearing a hairnet and gloves would scoop up the bar and discard it into a bin. It was rare, however, for there to be a mistake, a reject.

The same would be true of Kellogg's Corn Flakes (Kellogg Company, NYSE: K) with its reassuringly predictable mixture of corn flakes and sugar, and other ingredients: milled corn, sugar, malt flavoring, high fructose corn syrup, salt, iron, niacinamide, sodium, ascorbate and asorbic acid (vitamin C), pyridoxine hydrochloride (vitamin B6), riboflavin (vitamin B2) thiamin hydrochloride (vitamin B1), vitamin A palmitate, folic acid, vitamin B12 and vitamin D, and bht, which the company adds to the packaging to keep the contents fresh.

Pharmaceutical companies, whether they be Pfizer (NYSE: PFE), making patented drugs, or Mylan, Inc., (NYSE: MYL) making generics, must make sure each pill is uniform, conforming to the formula that the companies' scientists set. To make each pill uniform requires



precise measurement of each ingredient, with no margin for error in potency, size, or texture. It is a **K-Tron** machine that assures this impressive **uniformity**.

Conclusion

I have been impressed with **K-Tron's** chief executive officer, Ed Cloues, with whom I have spoken on several occasions. His strategy, as he told me in the first call I made to him, was to develop leading market positions in every sector in which **K-Tron** competed. He has succeeded; **K-Tron** has leading market shares in every industry that its manufactured products serve.

There were other attributes that attracted me to **K-Tron**. When we took our position in **K-Tron** in 2008, no brokerages on Wall Street were writing reports on the company and so there was no investment banking or brokerage premium in the stock price. Management had a large position in the stock. There was little debt of any kind (I like companies that have little debt. I like management that has respect for the dangerous consequences of debt, consequences that become acutely painful when things do not turn out as you had assumed or planned).

Our position in **K-Tron** was 37,775 shares. Our sale price of \$148.19 per share gave us proceeds of \$5,597,877.20. (37,775 times \$148.19)

Definitive merger agreements, such as the one into which **K-Tron** and **Hillenbrand** have entered, are powerful and legally binding, but they do not guarantee a merger, nor do they guarantee the price specified in the merger document. That is why I decided to sell our position on the day of the merger announcement rather than wait for the merger to be formally concluded on March 10, recognizing that there is always a possibility that the merger can be cancelled. This is a risk that I did not want to take.

Best regards,

Fredric E. Russell

P.S. On November 3, 2009, Warren Buffett, through **Berkshire Hathaway (NYSE: BRKA)** offered \$100.00 a share for all of the outstanding shares of **Burlington Northern Santa Fe Corporation (NYSE:BNI)**, which had closed at \$77.50 the day before the merger announcement. Buffet's offer of \$100.00 per share was a 31.5% premium to the closing price of \$75.76 of **Burlington Northern** on November 2, 2009. **Hillenbrand's** acquisition of **K-Tron** marks the second takeover in our portfolio within three months. We will be looking for more takeover candidates.