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Kraft Heinz's Velveeta Spinoff Plan Carries High Risks

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Kraft Heinz Company (KHC) is exploring a bold spinoff of its slower-growing brands, including Velveeta cheese, in a bid to reverse the fallout from its 2015 merger. Valued at up to \$20 billion, this move aims to boost shareholder returns but faces significant risks. This article examines the strategy, its potential pitfalls, and the broader challenges for legacy food brands in a shifting market.

In July 2025, reports surfaced that KHC is considering separating a large portion of its grocery business, including Velveeta, Oscar Mayer, and Jell-O, into a new entity, as confirmed by a source to *The Wall Street Journal*. The 2015 merger of Kraft Foods and H.J. Heinz, backed by Berkshire Hathaway, aimed to cut costs and expand globally but has seen shares plummet by two-thirds as consumers shift to cheaper private-label options. The condiments division, led by Heinz ketchup and Philadelphia cream cheese, generated \$11.4 billion in sales last year and holds strong international potential. In contrast, the grocery segment, with \$14.5 billion in sales, struggles against budget competitors, trading at just under nine times earnings, per *Reuters*.

The spinoff's success hinges on finding buyers for the new entity, a risky prospect in a market favoring healthier, fresher foods. "Investors only gain if acquirers step in," noted analyst Robert Moskow of TD Cowen, estimating the grocery unit's value at \$14.5 billion, below the \$20 billion projection. Potential suitors like McCormick or Unilever could target the condiments arm, while the grocery business might attract firms seeking leverage with retailers like Walmart, said Dave Wagner of Aptus Capital. Yet, KHC's silence on the plan's details fuels uncertainty.

KHC's move draws inspiration from Kellogg's recent split, with Ferrero acquiring its cereal business for \$3.1 billion. However, consumer trends toward health-conscious diets and rising grocery prices threaten legacy brands like Velveeta, known for its processed cheese products. Without innovation, the spinoff risks falling flat, leaving KHC to navigate a tough path to restore its market dominance.