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Tales of Corporate Lovemaking

From the Gabelli Merger Arbitrage Desk

Gabelli: Pioneers in Event-Driven Value Investing

Valentine's Day is usually about romance, but in markets, it's also a good excuse to talk about something equally emotional: deal-making. In 2025, corporate relationships ranged from straightforward strategic pairings to long, regulator-heavy engagements. In this piece, we're sharing a handful of the most instructive transactions from the year and what they reveal about how catalysts surface value.

Merger arbitrage seeks to capture the spread between a target company's trading price and the announced deal price, where that spread reflects deal-specific uncertainty – primarily probability of close and time-to-close. The strategy benefits from a stable source of returns from global M&A activity, offering a consistent and diverse scope of global investment opportunities through economic cycles.

Gabelli's merger arbitrage investment experience spans over four decades and relies on our broader research capabilities as a pioneer in event-driven value investing. By leveraging our proprietary research methodology and experience of more than 30 industry analysts worldwide, we maintain a distinct analytical edge in evaluating deals across a global universe of companies.

Across announced transactions, we focus on three questions:

1. Probability of close: What could derail the deal (regulatory, financing, votes, litigation, politics, etc.)?
2. Time-to-close: What is the critical path (which approval actually drives timing)?
3. Downside if it breaks: What do we think the target is worth on a standalone basis?

Corporate Lovemaking: 4 Love Stories

1. The Power Couple: Clear strategic rationale, smooth close

In January 2025, Johnson & Johnson announced its acquisition of Intra-Cellular Therapies (Nasdaq: ITCI) to bolster its neuroscience and mental health franchise. The deal added CAPLYTA (lumateperone), a differentiated oral therapy already approved for schizophrenia and bipolar depression, with significant potential for label expansion into additional indications.

We viewed the antitrust review as straightforward. Johnson & Johnson had only a limited presence in mental health, many of its relevant drugs were off-patent generics and not direct competitors to CAPLYTA, and the overall market remained highly fragmented with numerous players.

Johnson & Johnson was a strong, seasoned acquirer—with more than $100 billion in annual sales, a clean balance sheet, and fully committed financing. Given the minimal competitive overlap between the two companies, we expected the deal timeline to be driven primarily by Intra-Cellular Therapies shareholder approval rather than regulatory hurdles.

U.S. antitrust clearance was granted on February 26, 2025. Intra-Cellular shareholders approved the transaction on March 27, 2025, leading to closing on April 2, 2025—just 80 days after the initial announcement. This is what a high-conviction deal typically looks like: a financially robust strategic buyer with limited competitive overlap against the target.

Arb lens: Shareholder timing was the primary gating item; perceived break risk was limited given committed financing and low competitive overlap.
Takeaway: Clean strategic logic + limited overlap can be "marriage material" for a high-conviction close.

2.The Long Engagement: Extensions and regulator scrutiny

In August 2024, Mars, Inc. announced its acquisition of Kellanova (NYSE: K) in an all-cash transaction valued at $36 billion, or $83.50 per share. The deal would significantly expand Mars' snacking portfolio by combining its iconic confectionery brands—such as M&M's, Snickers, Skittles, and Twix—with Kellanova's leading salty snacks and breakfast offerings, including Pringles, Cheez-It, Pop-Tarts, Rice Krispies Treats, and RXBAR. The new Mars Snacking was projected to earn about $36 billion annually, making it comparable in size to snacking giant Mondelez.

We viewed the U.S. antitrust review as relatively straightforward. The companies' portfolios showed limited direct overlap—Mars is dominant in confectionery while Kellanova focuses on savory snacks, cereals, and frozen breakfast items—and the broader snacking market remains competitive and fragmented. The U.S. Federal Trade Commission (FTC) agreed with our assessment and cleared the transaction on June 25, 2025, without conditions.

Despite the unconditional approval in the U.S., the European Commission opted to launch an in-depth (Phase II) investigation in June 2025, expressing concerns that the combined entity could gain excessive bargaining power vis-à-vis retailers across multiple snacking categories—potentially leading to higher prices or reduced choice for consumers in Europe. This scrutiny reflected the EU's greater focus on portfolio effects and buyer power in consumer goods mergers, in contrast to the U.S. approach.

The European Commission granted unconditional approval on December 8, 2025—the final of 28 required global regulatory clearances—concluding that the deal would not significantly harm competition. The transaction closed shortly after on December 11, 2025. Mars was a strong, seasoned acquirer: a privately held, family-owned global leader with substantial financial resources, a clean balance sheet, and the ability to fund the deal entirely in cash. Although the European antitrust review extended the timeline for the transaction, shares of Kellanova traded lower as a result of the uncertainty and provided an opportunity to add to the position to earn a higher rate of return as feedback from Europe indicated the deal would ultimately receive approval.

Arb lens: The critical path was time risk: Europe, not the U.S., drove the timeline and the spread dynamics.
Takeaway: "Long engagements" can create opportunity when time uncertainty widens spreads

3.The Rebound: Revised bid / renegotiated terms

In May 2025, TXNM Energy (NYSE: TXNM), formerly known as PNM Resources, announced an agreement to be acquired by Blackstone Infrastructure in an all-cash transaction valued at approximately $12 billion, or $61.25 cash per share. TXNM is an energy holding company headquartered in Albuquerque, New Mexico, that delivers electricity to more than 800,000 homes and businesses across New Mexico and Texas through its two regulated utilities.

The acquisition by Blackstone represents a clear rebound for TXNM following the unsuccessful acquisition by Avangrid (a subsidiary of Spanish energy giant Iberdrola), which was terminated in January 2024 after New Mexico regulators rejected the deal over concerns specific to Avangrid as the buyer that included reliability, slower renewable development, and Avangrid's history of service issues in other states. Under Avangrid's proposed acquisition of TXNM, shareholders would have received $50.30 cash per share, so the Blackstone transaction delivers roughly 22% more value for shareholders.

After Avangrid failed to acquire TXNM in 2024, we believed TXNM remained an attractive acquisition candidate because of its position in two high-growth states with surging electricity demand-driven by Texas's rapid population and economic expansion alongside New Mexico's aggressive clean energy goals-and the substantial investment necessary for grid modernization. After Avangrid abandoned the deal, shares of TXNM traded in the mid-$30s, a material discount to our Utilities team's assessment of its intrinsic value, but trended higher as the market came to appreciate the earnings power and attractiveness of TXNM's business.

Blackstone has already made significant regulatory progress in advancing the deal, receiving antitrust clearance, shareholder approval, and Texas regulatory approval. The New Mexico Public Regulation Commission review process is currently underway, with hearings scheduled for May 2026. Blackstone Infrastructure has taken a proactive approach in New Mexico, learning from Avangrid's missteps by committing to $105 million in customer rate credits over four years, $35 million for economic development over 10 years, and support for low-income customers. Additionally, Blackstone is financing the acquisition entirely with equity to ensure TXNM's financial stability and avoid increasing leverage. The deal is expected to close in the second half of 2026.

Arb lens: This is a buyer-specific reset—probability-of-close depends heavily on stakeholder alignment and state approvals, with milestones providing incremental signal.

Takeaway: When a deal fails for buyer-specific reasons rather than fundamental business issues, patient shareholders can benefit from allowing the regulatory process to validate the asset's quality and waiting for a better-suited acquirer to emerge at a higher valuation.

4.**The Glow Up: Spinoff / split, asset sale**

In October 2023, Kellogg Company executed a tax-free spinoff of its North American cereal business, creating WK Kellogg Co (NYSE: KLG) as an independent public company that produces and markets iconic breakfast brands including Frosted Flakes, Froot Loops, and Rice Krispies to consumers across the United States, Canada, and the Caribbean.

The spinoff separated the mature, lower-growth U.S. cereal operations from the higher-margin global snacking and international businesses, that became Kellanova, and was acquired by Mars, Inc. for $36 billion. Following the spinoff, WK Kellogg's independent journey was short-lived, culminating in its $3.1 billion all-cash acquisition by Ferrero Group announced in July 2025 at $23 per share—a 30% premium to pre-announcement trading levels.

WK Kellogg's spinoff was driven by Kellogg's recognition that its conglomerate structure undervalued the company, as the North American cereal business faced category headwinds including stagnant or declining sales as consumers shifted toward portable snacks and healthier options, commoditization, and private-label competition. By spinning off the cereal unit, each business could pursue tailored strategies: WK Kellogg could focus on regaining share, optimizing supply chains, and innovating in cereals, while Kellanova accelerated in higher-growth snacks. After the spinoff, Ferrero recognized an opportunity to expand beyond confectionery into breakfast, seeing WK Kellogg's iconic brands as complementary to its portfolio for cross-innovation and North American growth.

Arb lens: Corporate actions can reset the buyer universe: spins create 'cleaner' assets that can become more actionable targets.
Takeaway: Not all catalysts begin as M&A; sometimes the glow-up is the corporate action that makes the eventual deal possible.

2026 M&A Outlook

As we enter 2026, the primary headwinds of recent years—restrictive interest rates and aggressive antitrust enforcement—have shifted to clear tailwinds. The Federal Reserve concluded 2025 with its third consecutive 25-basis-point rate cut in December, bringing the target range to 3.50%–3.75%. This easing cycle has lowered the cost of capital for both strategic buyers and private equity sponsors— the latter seeing a 40% year-over-year increase in deal volume.

On the regulatory front, the transition to a more traditional antitrust framework has been validated. While the new administration remains vigilant in specific sectors, the willingness to negotiate remedies and consent decrees where there are potential issues has significantly mitigated deal-break risk and provided the regulatory visibility necessary for large-scale consolidation. We are constructive on the outlook for both deal volumes, as well as returns from investing in announced deals.

Our team is eager to discuss Gabelli's Merger Arbitrage capabilities with you. Click here to schedule a meeting with a member of our team.

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As of December 31, 2025, affiliates of GAMCO Investors, Inc. beneficially owned 1.8% of TXN Energy and less than 1% of all other companies mentioned.

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