

Whitbread PLC

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Whitbread shares froth higher as it agrees to sell Costa coffee to Coca-Cola for £3.9bn

Whitbread PLC (LON:WTB) shares frothed up more than 16% after saying it has agreed to sell its Costa coffee chain to The Coca-Cola Co. (NYSE:KO) for £3.9bn.

The group, which also owns the Premier Inn hotel chain, announced plans in April to split off Costa into a separate entity after receiving pressure from activist investors Elliott Advisors and Sachem Head.

Whitbread chief executive Alison Brittain said the deal with Coca-Cola "represents a substantial premium to the value that would have been created through the demerger of the business and we expect to return a significant majority of net proceeds to shareholders".

READ: Whitbread shares fall as it confirms spin off of Costa Coffee after activist investor pressure
The deal representing a multiple of 16.4x Costa's fiscal year 2019 earnings (EBITDA).

Whitbread to use proceeds for shareholder returns, cutting debt
The company said it plans to return a "significant majority" of proceeds from the disposal to shareholders. Net cash proceeds are estimated to be £3.8bn after transaction and separation costs.

It will also use some of the proceeds to reduce debt and to fund its pension scheme, providing extra headroom for the expansion of Premier Inn in the UK and Germany.

The deal is expected to be completed in the first half of 2019, subject to shareholder and regulatory approvals.

Coca-Cola president and chief executive, James Quincey, said: "Hot beverages is one of the few remaining segments of the total beverage landscape where Coca-Cola does not have a global brand. Costa gives us access to this market through a strong coffee platform. I'd like to welcome the team to Coca-Cola and look forward to working with them."

Whitbread bought Costa for £19m in 1995 when the business had just 39 outlets. It is now the UK's largest coffee chain with more than 2,400 UK coffee shops and 1,400 outlets in 31 overseas markets. Costa Express has 8,237 vending machines across the globe.

In morning trading, shares in Whitbread were up 16.2% to 4,670p each.

Deal represents rich valuation but Whitbread is losing jewel in its crown, says analyst
"On the one hand £3.9 billion is an undeniably rich valuation and likely far better than Costa could achieve as an independently listed company, valuing its earnings higher than those of the mighty Starbucks," said Nicholas Hyett,

Price: 4236.75

Market Cap: £56.68 m

1 Year Share Price Graph



Share Information

Code: WTB

Listing: LSE

52 week High Low
5194 3927

Sector: Leisure, gaming and gambling

Website: www.whitbread.co.uk

Company Synopsis:

Whitbread PLC is the UK's largest hotel and restaurant company operating businesses in the budget hotels and restaurant sectors. Its brands include Premier Inn, Beefeater, Table Table, Brewers Fayre, Taybarns and Costa Coffee. Whitbread PLC employs over 33,000 people and serves 8.5 million customers every month in its 1500 outlets across the UK.

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equity analyst at Hargreaves Lansdown.

"On the other, Costa has long been the jewel in Whitbread's crown and some will be sad to see it go at any price, especially given the growth potential in China and elsewhere."

Hyett said Coca-Cola's global reach should turbo-charge growth in the years to come and hot drinks is one of the few areas in beverages where the soft drinks giant doesn't have a major brand.

On the remaining business, Premier Inn, Hyett said: "Progress has been good and we believe the product is excellent, but it's a very different business to Costa and growth will be slower and demand more up-front investment."

He added: "An excellent deal it may be, but Whitbread investors may miss the caffeine highs Costa serves up."

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