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Whitbread PLC announces intention to demerge Costa

- Over the last few years Whitbread's Board has rigorously and regularly reviewed its strategy and structure and has for some time been of the view that separating Premier Inn and Costa, at the right time, would enable long-term value to be optimised
- Given the considerable strategic progress that has been made, particularly in developing significant international growth prospects in each business, Whitbread is now committed to a demerger of Costa, providing shareholders with investments in two distinct, focused and market-leading businesses
- Demerger of Costa will be pursued as fast as practical and appropriate to optimise value for shareholders
- Appropriate time will be taken to complete critical transformation and infrastructure improvement objectives that will put both Premier Inn and Costa in a strong position to thrive as separate entities
- Whitbread PLC to remain the owner of Premier Inn, the UK's largest and most successful hotel business, with attractive UK and international growth opportunities
- Costa is the clear UK market leader and second largest globally, with attractive long-term international opportunities
- Today's announcement of the demerger of Costa will provide clarity to shareholders, team members and other stakeholders on Whitbread's strategic direction

Whitbread today announces it is committed to a demerger of Costa, which will provide shareholders with an investment in two distinct, focused and market-leading businesses. Both businesses will be in a strong position to create value by capitalising on significant structural growth opportunities in the UK and internationally. The demerger of Costa will be pursued as fast as practical and appropriate to optimise value for shareholders and is expected to be completed within 24 months.

The Board regularly reviews the strategic direction of Whitbread and the structure of the Group. These reviews are designed to protect and enhance the long-term value of the businesses within Whitbread for its shareholders and to ensure that the businesses continue to effectively and responsibly serve their customers and communities. This approach has delivered considerable long-term returns for shareholders, created substantial employment and career opportunities for Whitbread's team members, and played a part in the daily lives of millions of consumers throughout the UK and internationally.

Over the past three years Whitbread's strategic focus has been: to grow and innovate Premier Inn and Costa in the UK; to build a platform in which both businesses can realise international structural opportunities; and to improve the efficiency, infrastructure and capabilities to support long-term growth.

Substantial progress has been made in all aspects of Whitbread's strategy, including:

- building Premier Inn into the largest and most successful hotel business in the UK;
- developing Costa into the UK's clear leader in the out-of-home coffee market with a broad range of outlets in the UK and improvements in product innovation and digital capability;
- laying solid foundations for international growth for Premier Inn in Germany, Costa in China and Costa Express further afield. All three international opportunities have significant structural growth available; and
- delivering a complex and wide-ranging transformation programme to improve the skills, capabilities, infrastructure and technology required to underpin long-term sustainable growth in both Premier Inn and Costa.

The Board has for some time been of the view that separating Premier Inn and Costa at the right time would enhance focus and enable value to be optimised for shareholders over the longer term. Given the significant strategic progress that has been made and the momentum in the delivery of the plan, the Board is confident that both Premier Inn and Costa will soon be businesses of sufficient strength, scale and capability to enable them to thrive as independent companies. The Board, therefore, believes that it is in the best long-term interests of Whitbread's many stakeholders to separate Premier Inn and Costa, via a demerger of Costa. Announcing the demerger of Costa will provide clarity to shareholders, team members and other stakeholders on Whitbread's strategic direction.

The Board has carefully considered the optimal timing of the demerger of Costa and concluded it will be pursued as fast as practical and appropriate to optimise value for Whitbread's shareholders and is expected to be completed within 24 months. This timeframe will allow both Premier Inn and Costa to maintain momentum, complete critical and complex transformation and infrastructure objectives, and drive international expansion, putting each business in a strong position to create further value as separate entities. These objectives include:

- completing the complex and critical IT and business system upgrades and improvement programmes, which are delivered by Whitbread shared resources;
- delivering the recently upgraded efficiency programme, which will offset a significant proportion of the current high level of industry inflation and minimising disruption to trading and product innovation activities, particularly in the UK;
- further develop the international strategies in both Premier Inn and Costa, to strengthen the foundations for long-term profitable growth; and
- appropriately managing the Whitbread pension fund deficit and funding facilities and ensuring both Whitbread and Costa have appropriate governance structures in place to thrive as separate entities.

Regular updates on progress will be given as part of Whitbread's standard financial reporting cycle. The Board will also begin to consult shareholders in order to align executive incentive structures to this plan.

Adam Crozier, Chairman of Whitbread PLC, said: "The Whitbread Board has conducted regular and rigorous reviews of its strategy and structure for a number of years. For some time, the Board has been of the view that at the right time Premier Inn and Costa should be independent companies. A separation will provide enhanced focus for each business and give shareholders an investment in two high-quality businesses. We will ensure that prior to separation each business is sufficiently developed and well-positioned to take advantage of the structural growth opportunities available to them in the UK and internationally. Announcing our intention now

provides clarity of our strategic direction to our shareholders, team members and other stakeholders.

The management team have continued to deliver strong strategic and operational performance, whilst building momentum in growth, innovation, international expansion and development of technology and infrastructure. The team will now also be focused on ensuring the demerger of Costa is conducted as fast as practical and appropriate to optimise value for Whitbread's shareholders. The Board fundamentally believes this is the best course of action to optimise value for shareholders over the longer term and will ensure both Premier Inn and Costa are positioned well to thrive as independent companies."

Alison Brittain, Whitbread PLC Chief Executive, said: "Over the last two years, Whitbread has made tremendous progress in innovation and growth in our core UK businesses and we have recently delivered a step-change in international development through two significant acquisitions in China and Germany. We have considerable momentum in the delivery of a complex multi-year transformation programme which will improve our core operational capability, redevelop our technology platform and deliver significant levels of efficiency. We are confident in our plans to deliver further progress in these areas, which will ensure both Premier Inn and Costa are in a strong position to continue their success as separate entities, creating further value for our shareholders and opportunities for our team members.

I am excited that at the point of separation, both businesses will be able to take advantage of the structural growth opportunities available to them in the UK and internationally. Costa will become a listed entity in its own right and the clear market leader in the out-of-home coffee market in the UK. Costa will also be well positioned to build further on its strong international foundations with growth expected in China and Costa Express.

Whitbread will remain the owner and operator of the UK's most successful hotel business. A key priority will be continuing the development of Premier Inn by creating a business of scale in Germany to replicate the success we've had in the UK."

Further information

The update on Whitbread's structure will be discussed further at the FY18 Full Year Results briefing to investors and analysts at 9.30am today. A webcast of this briefing is available on the Whitbread website (www.whitbread.co.uk/investors), together with the supporting presentation material.

For more information please contact:

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