

WHITBREAD

# Whitbread PLC [WTB]

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# Recommendation

EAT SLEEP & DRINK  
**WHITBREAD**

Reasons to buy:

1. Expansion into Germany
2. Vaccine Rollout implies Revenue Recoveries
3. Strong £ against the Euro

Potential risks include:

1. UK Economy Fluctuations
2. High Fixed Costs
3. Prevalence of AirBnB



# Company Overview- History



Founded

- 1742: founded as a brewery
- 1780s: world's largest brewery



Aims

- To be the world's best budget hotel
- Quality, affordable hotels enabling guests to live and work well



Past Strategy

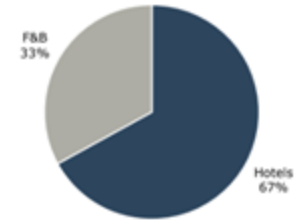
- 1990s: Acquisitions including Premier Lodge hotels, TGI Fridays, Pizza Hut and Costa Coffee
- 2000: Sold brewery business, TGI Fridays and Pizza Hut
- 2019: Sold Costa Coffee



Historical  
Stock  
Performance

- Currently: £35.50
- High: £37.09
- P/E: 23.9
- Market Cap: 7.17B

Sales by Division (FY21)



Source : Goodbody



# Company Overview- Management



## Adam Crozier: Chairman

Appointed March 2018

- Saatchi & Saatchi
- Football Association
- Royal Mail
- ITV



## Alison Brittain: CEO

Appointed September 2015

- Barclays Bank
- Santander UK plc
- Lloyds Banking Group
- *Business Women of the Year 2017*

## Largest Shareholders

Aberdeen Asset Management- 4.73%, Longview Partners LLP- 4.48%, Vulcan Value Partners LLC- 3.57%

# Company Overview- Business Model

Premier Inn creates 90% of  
Whitbread's profits

837 hotels across the UK,  
Germany and Middle East

£2 072m revenue (2019/20)  
increase of 1.1% from  
previous year

## Geographies

- *United Kingdom*
  - Premier Inn: 750 hotels
  - Table Table: 100 sites
  - Beefeater: 140 restaurants
  - Brewers Fayre: 145 pubs
- *Germany*
  - 16 hotels currently
  - Munich, Frankfurt, Berlin and Hamburg

# Company Overview- Differentiators

Multi-disciplined company that can benefit from synergies across all of its businesses.

- Owns *60% of its real estate* hence lower rent payments than if buildings were leased like Travelodge
- Combination of *core businesses* in close proximity to one another
- *Fragmented German market* with Premier Inn share of 1% and largest market share held by Ibis at only 2%

# Company Overview- Competitors

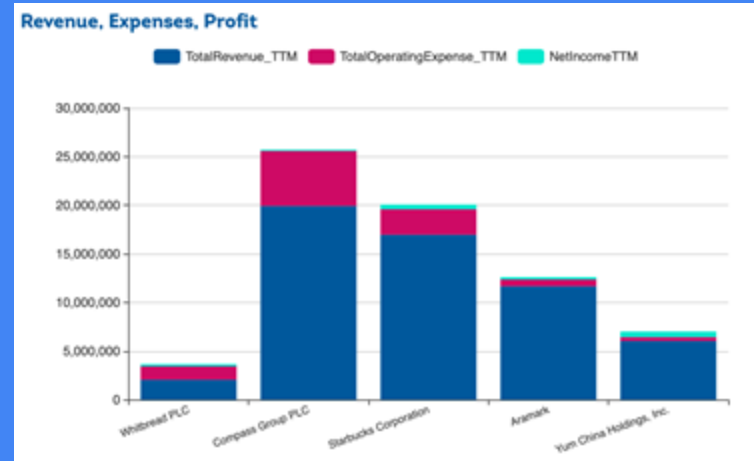
## Travel & Leisure Competitors

1. Hilton Worldwide
2. Travelodge
3. InterContinental
4. AirBnB

## Food & Beverage Competitors

1. Starbucks
2. Blue Bottle Coffee
3. Compass Group

*“Half the people booking an Airbnb room wouldn’t have stayed in a hotel anyway” (Alison Brittain)*



# Company Overview- Regulatory Backdrop



## Competition and Markets Authority

- UK hotel market: 11.4%
- Germany hotel market: 1%



Premier Inn

## Brexit

- Expansion into Germany
- 50/50 business-leisure split leans towards customers needing to do jobs nearby e.g. construction



An aerial view of a city skyline at dusk, with the text "Financial Analysis and ESG considerations" overlaid in white. The background shows a dense urban landscape with numerous skyscrapers, some of which are illuminated. The sky is dark with some clouds, and the overall scene is dimly lit, suggesting the transition from day to night.

# Financial Analysis and ESG considerations

# Analysis of the Income Statement and Key Valuations

Period End Date	29-Feb-2020
Update Type/Date	Normal
Auditor/Accountant	Deloitte & Touche
Accounting Standard	International Financial Reporting Standards (IFRS)
Annual Income Statement: (GBP)	
Net Sales or Revenue	2062100000
Cost of Goods Sold incl. Depreciation	1089800000
Gross Income	972300000
Selling, General and Administrative Expense	458400000
Other Operating Expenses	15600000
Operating Income	498300000
Unusual Expense (Income) - Net	87600000
Nonoperating Income (Net) - Total	15900000
Interest Expense	144100000
Pretax Income	282500000
Income Taxes	62100000
Equity in Earnings of Affiliated Companies	-2500000
Consolidated Net Income	217900000
Minority Interest	
Net Income Before Extraordinary Items	217900000
Net Income	217900000
EPS (Operational)	1.59603564868109
Earnings per Share (Basic)	1.253
Earnings per Share (Diluted)	1.2455
Total Operating Expense	1563800000

Profit margin : -49.65%

Return on Equity : -15.64%

TIE : 5.43

EV/EBITDA : 11.35

ROCE : 0.55

# Analysis of the Balance Sheet

Current ratio : 2.34

Quick ratio : 2.29

Debt to Asset : 0.43

## Whitbread\_Plc

Period End Date	29-Feb-2020
Update Type/Date	Normal
Auditor/Accountant	Deloitte & Touche
Accounting Standard	International Financial Reporting Standards (IFRS)
Annual Balance Sheet: (GBP)	
Cash and Short Term Investments	502600000
Cash	502600000
Short Term Investments	
Total Inventories	13700000
Other Current Assets	9000000
Total Current Assets	833000000
Net Property, Plant and Equipment	6505700000
Total Investments and Advances	1037000000
Long Term Investments	48900000
Intangible Assets	172800000
Goodwill- Net	110500000
Other Intangible Assets	62300000
Deferred Tax Assets	
Other Assets	205200000
Total Assets	7825500000

Short Term Debt	84000000
Total Current Liabilities	646900000
Long-Term Debt	3282200000
Provision for Risks and Charges	7600000
Deferred Tax Liabilities	137800000
Other Liabilities	2200000
Total Liabilities	4076700000
Common Equity	3748800000
Total Shareholders Equity	3748800000
Accumulated Minority Interest	
Total Stockholders' Equity	3748800000
Total Liabilities and Shareholders Equity	7825500000
Cash	502600000
Investment in Unconsolidated Subsidiaries	54800000
Total Debt	3446100000
Common Shares Outstanding	155402246

# Analysis of Cash Flow

Whitbread\_Plc Cash Flow

Period End Date	29-Feb-2020
Update Type/Date	Normal
Auditor/Accountant	Deloitte & Touche
Accounting Standard	International Financial Reporting Standards (IFRS)
Annual Cash Flow Statement: (GBP)	
Net Income Or Starting Line	217900000
Depreciation, Depletion and Amortization	268800000
Deferred Taxes and Investment Tax Credit	37400000
Total Other Cash Flow	-110600000
Funds from Operations	298200000
Changes in Working Capital	-64000000
Net Cash from Operating Activities	234200000
Capital Expenditures	-393400000
Net Assets From Acquisitions	-192300000
Disposal of Fixed Assets	11900000
Purchase Or Sale Of Investments	-2000000
Net Cash from Investing Activities	-575800000
Total Cash Dividends Paid	-159900000
Sale/Repurchase of Stock, Net	-2318900000
Net Cash from Financing Activities	-2550900000
Effect of Exchange Rate on Cash	-8100000
Net Change in Cash	-2900600000

CFO : 234.2M

CFO/Rev. : 0.113

CFO/PPE : 0.035

CFO/LTD : 0.07

# ESG

## SUPPLY CHAINS

- All wild caught fish are MSC
- Members of the RSPO
- First large hospitality company to become BCI members
- Partnered with STOP THE TRAFFIK since 2016 to combat modern slavery

- 39% reduced carbon intensity; *net-zero by 2050*
- *Halving food waste by 2030*
- Have removed 2 tonnes of single-use plastics from work uniforms

## ENVIRONMENTAL

- Unlike competitors, allowed consumers to *book more flexibly* during the pandemic.
- Have reduced menu sugar content by 20%

## SOCIAL

## GOVERNANCE

- Have over 4 key committees below Board level as a system of checks and balances
- Run development course for all employees, including for their 35% female leadership teams

# COVID-19 Response

Kept 39 hotels open to support *key workers*

Trained 29,000 *team members* to secure standards

Donated *half a million meals* through charities such as

## COVID-19 Consideration

i. More people travelling domestically due to the pandemic

ii. Restaurant chains are harder to operate under social distancing measures (buffets -> deliveries)

iii. Budget chains outperformed upscale hotels post the 2008 downturn; similar situation with COVID.

# Future Optimism

*A December 2020 report by UKHospitality regarding recovery of the Hospitality sector in 2021, using data from Consumer and Industry surveys by CGA*

- **Lockdown measures have focused attention towards consuming and spending leisure time locally and domestically, an advantage for Whitbread's numerous restaurant chains and hotels, particularly as lockdown is eased in the onset of summer**
- **58% of business leaders increased demand in 2021, with 57% seeking to hire more staff**
- **The success of the vaccine roll out, the fall in cases and fall in hospitalisation and death rates is very strongly likely to increase consumer confidence along with the optimism associated with the summer moments.**

# Risk Factors

- Exposure to fluctuations in the UK economy with *99% of Premier Inn's* being located in the UK
- Prevalence of AirBnB as a *substantial substitute* for Premier Inn
- Increasing costs due to increases in the *NLW*, cost-push *inflation* and *property cost increases*
- COVID-19 pandemic



# Closing Summary

