

# INTERNATIONAL Herald Tribune

## Coca-Cola buys Glaceau, maker of Vitaminwater, for \$4.1 billion

**The Associated Press**

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**ATLANTA:** Coca-Cola is betting big that Glaceau will help it expand its water and energy drink offerings and jump-start North American sales.

On Friday, the world's largest beverage maker said it would buy the privately held maker of Vitaminwater for \$4.1 billion (€3.05 billion) in cash. And Coca-Cola executives said the price-tag, which is nearly twice what Glaceau's estimated value was less than a year ago and represents Coke's largest acquisition ever, is worth it.

"We're looking at this as a long-term opportunity," Chief Operating Officer Muhtar Kent told reporters in a conference call.

John Sicher, an industry analyst and editor and publisher of Beverage Digest, said the price is a function of Glaceau's "astronomical" growth.

"There are simply no other privately owned brands out there which could give Coke the kind of potential Glaceau does," Sicher said. "In addition, Coke can create more value by putting it into its strong international bottlers. That will further help make this deal pay off."

The acquisition will be financed with debt, and is expected to add to The Coca-Cola Co.'s earnings starting in 2008, but will slightly dilute profits this year, executives said.

Coca-Cola's chief financial officer, Gary Fayard, said in a conference call with analysts that Coke will take full ownership of Glaceau. For now, it is 30 percent owned by holdings of India's Tata Group, a conglomerate with interests spanning steel, software services, hotels, chemicals and insurance.

The Tata stake will be acquired later than the majority stake, Fayard said. Tata will get \$1.2 billion (€890 million) of the \$4.1 billion (€3.05 billion) purchase price, officials said.

Tata paid \$677 million (currently €504 million) for its Glaceau stake last August, a deal that at the time valued the entire company at \$2.2 billion (€1.64 billion), Coca-Cola said.

The purchase of Glaceau, also known as Energy Brands Inc., could reduce Coca-Cola's financial flexibility to buy back its own shares. Coca-Cola had previously said it would buy \$2.5 billion (€1.86 billion) to \$3 billion (€2.23 billion) of its stock this year; Fayard said Friday the company now expects to repurchase at least \$1.75 billion (€1.3 billion) to \$2 billion (€1.49 billion) in shares in 2007.

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Fayard said the company expects cost savings from the Glaceau deal to develop later, and he added that Coca-Cola will invest those savings in further growth of Glaceau's brands.

Formed in 1996 and based in Whitestone, New York, Glaceau is the maker of Vitaminwater, Fruitwater, Smartwater and Vitaminenergy.

The deal to buy Glaceau, which would operate as a separate business unit within Coca-Cola's North America segment, is expected to close in the summer. It is subject to regulatory review. The boards of both companies have approved the transaction.

Glaceau is attractive for Atlanta-based Coca-Cola because of its position in the enhanced-water and energy drink categories, which Coca-Cola is betting will make up a large portion of the beverage industry's growth in North America through 2010.

Coca-Cola said Glaceau's top three executives — founder and CEO J. Darius Bikoff, President Mike Repole and Chief Financial Officer Mike Venuti — intend to lead the business for at least three years, and that other key managers will remain in the business.

A spokeswoman for Glaceau, Nina Fiddian-Green, declined to discuss her company's corporate structure and financial information, and she referred questions to Coca-Cola. Glaceau does not release annual sales figures.

Bikoff told reporters Glaceau has had conversations with other companies, but he did not say whether there had been other offers besides Coca-Cola's.

"I can't tell you anything specific about offers, but I can tell you there were other companies that were talking to us, not just in recent months but for years," Bikoff said.

He would not disclose his personal ownership stake in Glaceau.

Coca-Cola has been trying to improve sales in its key North America unit, which has been a weak spot. The company's 14 percent increase in first-quarter profit came on a double-digit rise in overall sales, but in North America, unit-case volume declined 3 percent in the quarter.

Meanwhile, R.K. Krishna Kumar, vice chairman at Tata Tea Ltd., said in a conference call with reporters that his company will use part of its proceeds from the sale of its Glaceau stake to Coca-Cola to clear debt of Tetley, a British tea company that Tata Tea owns. Tetley's debt currently totals about \$660 million (€491 million).

Tata Tea is part of the Tata Group.

The Tata Group has been the most aggressive among Indian companies trying to acquire businesses overseas in recent years to gain global visibility after thriving for decades in a protected market at home. Earlier this year, Tata Steel bought London-based Corus Group PLC, an acquisition that propels the Indian company into the league of the world's top five steel producers.

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AP Business Writer Rajesh Mahapatra contributed to this report from New Delhi.

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On the Net:

<http://www.coca-cola.com>

<http://www.glaceau.com>