



Whistler Blackcomb Holdings Inc.: What to Do With Profits From Vail Resorts, Inc. Deal

Description

At the end of July, I [recommended](#) investors consider buying **Whistler Blackcomb Holdings Inc.** (TSX:WB) providing readers with three reasons for my pick. At the time, its stock was trading around \$25. Two weeks later, **Vail Resorts, Inc.** ([NYSE:MTN](#)) made a cash and stock offer for \$1.4 billion—a 43% premium on its August 5 closing price.

I, unfortunately, did not take my own advice. Even a blind squirrel finds an acorn once in a while.

To no one's surprise, Whistler Blackcomb's board has unanimously approved the sale to Vail Resorts; Whistler Blackcomb shareholders holding 25% of its shares have already agreed to vote in favour of the transaction. This one's a slam dunk.

If you're an existing Whistler Blackcomb shareholder, perhaps you've already sold your shares, which closed trading August 30 above \$37. There's absolutely no chance another bidder will surface, so the arbitrage bet here isn't in play.

The details of the deal call for \$17.50 in cash plus 0.0975 shares of Vail stock. So, if you were able to get your hands on 1,000 shares of Whistler Blackcomb stock at the November 2010 IPO price of \$12, assuming you've sold or will sell, you're sitting on a capital gain of \$25,000 and an annualized total return of 21%.

Nice.

If you somehow found the courage to buy after reading my piece (I think it takes a lot more than that to get an intelligent person to act), your annualized return ratchets up four-fold—a really good payout for three months' work.

Whatever your situation, my initial thought is that there probably aren't too many shareholders, long term or short term, who are considering holding on to Vail stock once the transaction is completed this fall. However, the original IPO investor stands to receive almost 100 Vail Resort shares (August 30 closing price of US\$158.81) from his or her original 1,000-share investment in Whistler Blackcomb.

There are two reasons to hang on to your new Vail stock.

First, if you were one of the original investors, your capital gain goes from approximately \$24 per share to just \$17.50, reducing considerably the tax payable next April.

The second reason for hanging on to Vail stock is simple. Nothing has really changed. Whistler Blackcomb investors will own 10% of the merged company. Vail Resorts's stock has done even better than Whistler Blackcomb since November 2010, generating an annualized total return of 25.7%—470 basis points higher.

If you thought it made sense to own Whistler Blackcomb stock, I'm not sure how you can do anything but keep the Vail stock and perhaps even roll the after-tax cash portion received into additional shares. Yes, you're assuming some of the synergy risks that would have been entirely the burden of Vail Resorts in an all-cash deal, but in my opinion, it's a risk worth taking.

It's time to let some or all of your profits ride.

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