

IR Magazine, the voice of global IR since 1988, is open to publishing your articles and blogs. If you would like to contribute, please get in contact or send your submission to Tim Human at tim.human@irmagazine.com.

THE ACTIVIST PUSH FOR SPIN-OFFS

With activists now robustly involved in boardroom dynamics, engaged shareholders are pushing to realize untapped value, say *Aneliya Crawford* and *Steve Wolosky*

A current trend in activism is to press for a spin-off of a business line to exploit its potential value as a separately traded company. And in the right circumstances a spin-off certainly can release latent value by removing obstacles to valuation and growth, particularly where the distinct businesses are potentially more valuable separately than as one entity. Carl Icahn pushed Manitowoc to spin off its core Foodservice business from its cranes division, asserting that 'disparate, unrelated businesses trapped in a single company' were undervaluing the firm as a whole. Similarly, Elliott Management is pushing Citrix Systems to spin off its successful tangential businesses: the GoTo franchise and NetScaler.

Controlling a business in an unrelated sector can also cause brand confusion. Under separate management, both the company and the subsidiary could provide more directed and consistent messaging to current and prospective investors. Corvex Management, for example, is urging Yum! Brands to spin off its China business to increase value. The separation, Corvex reasons, would allow the capitalization of two distinct opportunities.

Investor perception plays a key role. Splitting on a tax-free basis into single-sector businesses that can be more easily understood by analysts and investors can help firms avoid the 'conglomerate discount' and attract new investors. Jana Partners spotted investor confusion and urged Qualcomm to split off its chipset business so investors could realize its long-term potential. Jana contended that investors and analysts essentially valued the unit at zero.

Another angle sees activists urging companies to unwind opportunistic acquisitions. Fresh from a decision to spin off its Alibaba holdings under pressure from activist Starboard Value, Yahoo! is now being pushed to spin off its Yahoo! Japan stake in a tax-efficient transaction that Starboard estimates can unlock shareholder value in the billions.

Also trending in spin-off activism is the use of real estate investment trusts (REITs). Activists assert that trapped value in real property can be maximized through tax-efficient separation. On the heels of one of the most prominent activist campaigns of last year led by Starboard Value, Darden Restaurants recently announced plans to transfer about 430 of its more than 1,500 restaurants to a public REIT, a step taken after prodding by the activist.

There were 38 spin-offs of public companies completed in 2014 compared with 20 in 2013 – a 90 percent year-on-year increase. And a further 53 have been announced that could close in 2015, in addition to 32 announced or pending for the year. Will this growth continue? Certainly, competitive pressures and accelerated rates of change have brought out the benefits of spin-offs. Either way, activists are unlikely to stop pushing for them. Moreover, large and influential activists like Carl Icahn have successfully taken up the issue of improving the corporate governance of the spun-off entity, indicating the trend will not evaporate soon.

Aneliya Crawford and Steve Wolosky are associate and partner, respectively, at Olshan Frome Wolosky



Steve Wolosky



Aneliya Crawford