INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Class: FY BSc

Subject : Business Finance 1

Chapter:

Chapter Name: Demergers

Today’s Agenda

1. Demerger

2. Types of demerger
    1. Spinoff
    2. Splits
    3. Carve outs

1 Demerger

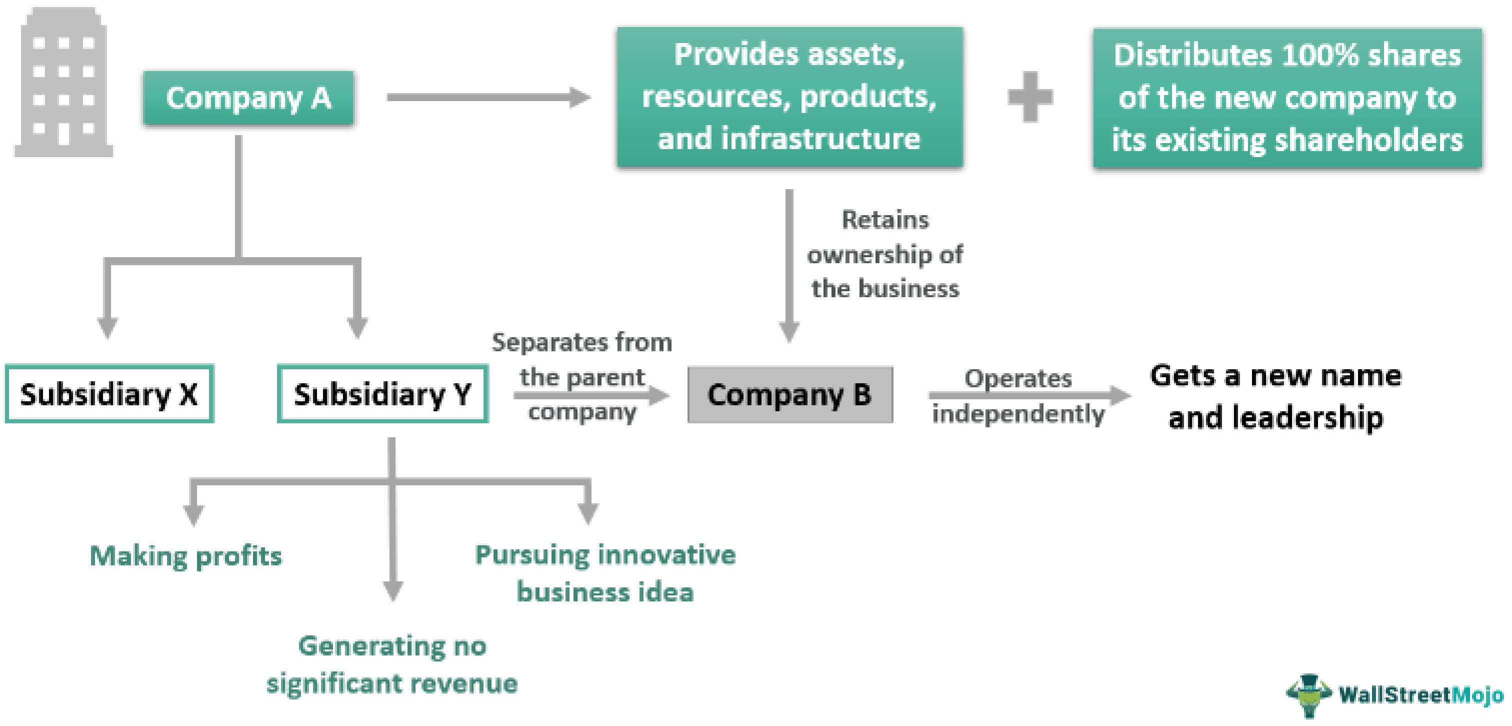
A de-merger is a corporate restructuring in which a business is broken into components, either to operate on their own, or to be sold or to be liquidated as a divestiture.

2 Types of Demerger

1. Spinoff
2. Splits
3. Carve outs

2.1 Spinoff

A spinoff, also known as starburst or spinout, refers to an operational strategy where a company separates its subsidiary to form a new independent entity. In doing so, the parent firm retains the ownership of the new business and distributes or sells shares of the new company to its existing shareholders.



2.1 Spinoff

Advantages

- The parent company can retain a non-controlling interest in the subsidiary.
- Existing shareholders enjoy the benefit of holding shares in two companies instead of one.
- Can be a non-taxable event.
- Removal of the parent company from the management and decision-making of the subsidiary.

Disadvantages

- No funds are raised as no stock is sold.
- Possibility of shareholder churn if shareholders were against the spin-off decision.
- The price of the shares of the parent company declines by the market value of the spun-off business.

2.1 Spinoff

Have you come across any example of a spinoff?

On Monday 18 July 2022, GSK plc (“GSK” or the “Company”) separated its Consumer Healthcare business from the GSK Group in a **spin-off** to form Haleon plc (“Haleon”), an independent listed company.

2.2 Splits

A large company consisting of multiple businesses may want to split them into separate companies. In a split-off, the shareholders are given the opportunity to exchange their ParentCo shares for new shares of the subsidiary (SplitCo). This "tender offer" often includes a premium to encourage existing ParentCo shareholders to accept the offer. - **Split off**

In contrast to the above, in a split-up the parent company does not survive. It is liquidated into the new companies that are created as part of the transaction. - **Split up**

2.2 Splits

Advantages

- A split-off is a tax-efficient way for ParentCo to redeem shares.

Disadvantages

- Potential for shareholder lawsuits if the premium offered by ParentCo is deemed unfair by activist shareholders.
- No funds are raised as no stock is sold.

2.2 Splits

Example of a Split off :

https://www.moneycontrol.com/news/companies-2/vedanta-announces-demerger-to-split-business-into-six-listed-entities-11452691.html

2.3 Carve outs

It includes selling off a particular line of business to any external company/party. As result, the parent company might sell its portion of its equity to a strategic investor or third party. Therefore, this type of demerger is known as equity carve-out.

2.3 Carve outs

Advantages
- Raising capital while holding control proves a win-win situation.
- Opportunity to sell a non-core business unit.
- Allows the parent company to get an evaluation of the subsidiary's market value.
- Prevents subsidiary from being purchased by a competitor

Disadvantages
- Parent company can offer up to 20% only of its shares in an IPO to obtain tax benefit.