

## More Spinoffs In the Air

by Robert W. Wood • San Francisco

In continuing the several year trend in favor of Section 355 spinoffs, Sandoz AG has announced plans to either sell or spinoff its chemicals division in an effort to focus more strongly on drugs and nutrition. See "Sandoz Plans Chemicals Unit Sale or Spinoff," *Wall Street Journal*, March 24, 1995, p. A5A. As has been typical with other recently announced spinoffs, the stated business reason for the contemplated spin (or sale) is an effort to focus strategically on a particular market segment, in this case health and nutrition businesses. Allowing management to concentrate energies, resources and creativity in certain areas is viewed as a material benefit that would boost the value of the company's stock.

Most tax practitioners know, of course, that such laudable but general goals are unlikely to be sufficient to obtain a ruling from the IRS as to the tax qualified nature of the spinoff. Normally, creative tax minds will have to come up with reasons why the spin in fact is needed. (For a recent listing of business purposes, see Wood, "To Spin or Not To Spin?" 3 *M&A Tax Report* 3, (Oct. 1994) p. 1.) Ultimately, of course, the charge of corporate officers to enhance a company's value is supposed to be satisfied by such a move. Analysts reacting to the Sandoz announcement said that shareholder value would be increased. See "Sandoz Plans Chemicals Unit Sale or Spinoff," *Wall Street Journal*, March 24, 1995, p. A5A. The business purpose requirement is, however, more particular.

### Raytheon and Others, Too

Another spinoff on the drawing board involves Raytheon Co., which is considering a spinoff of part of its rapidly growing engineering and

construction unit. See "Raytheon Considering a Partial Spinoff of Its Fast-Growing Engineering Unit," *Wall Street Journal*, March 6, 1995, p. A4. Predictably, the CEO of the company said that the independently traded shares for the engineering unit would likely produce a higher overall valuation for Raytheon, the current valuation of which (as an aggregate) the company finds unsatisfactory. Once again, if Raytheon truly pursues a spin it will need something more concrete in the way of a business purpose to satisfy the IRS' advance ruling requirements.

Showing that the deconsolidation and spinoff trend is merely only a domestic one, Hanson PLC has announced that it will spinoff its "noncore" U.S. businesses. See "Hanson to Spinoff 'Noncore' Businesses in U.S., Setting Stage for an Acquisition," *Wall Street Journal*, Feb. 23, 1995, p. A3. The Hanson spinoff to shareholders will greatly reduce Hanson's debt, but also will leave the shareholders with a new company constituting a highly leveraged grab bag of unrelated operations. According to Hanson's announcement, the 34 U.S. businesses will form a company entitled U.S. Industries, Inc., with an estimated market value of \$800 million to \$1 billion.

Turning to business purpose, the Hanson spinoff is designed to prepare Hanson for major acquisitions according to the company's CEO. After several years of trying to dispose of many of the U.S. businesses individually, Hanson now turns to the spinoff as a way of allowing it to dump into one transaction businesses that it would otherwise have shed over several years. See "Hanson to Spinoff 'Noncore' Businesses in U.S., Setting Stage for an Acquisition," *Wall Street Journal*, Feb. 23, 1995, p. A3. The spinoff of Hanson is designed to occur as a tax-free dividend, with Hanson shareholders receiving one U.S. Industries share for every 100 ordinary Hanson shares.

### Even Health Care

Finally, in the wake of the spinoff of WellPoint Health Networks, Inc., various Blue Cross plans are reportedly considering a variety of corporate restructuring measures. See "As WellPoint Spinoff Attracts Interest, Other Blue Cross Plans Consider Moves," *Wall Street Journal*, Feb. 16, 1995, p. A3. ■

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