More Spins in the News

by Robert W. Wood • San Francisco

As part of our continuing count of noted spinoff (and similar) transactions, consider the following. Vencor, Inc., the long-term health care provider, announced it would split into two publicly traded companies, albeit in a taxable transaction. One entity would conduct operations, and the second entity would be a real estate investment trust (REIT) to own the company's land, buildings and improvements. The REIT is scheduled to be called VenTrust, Inc., and it will lease the buildings to the operating company (thus maintaining a rather obvious connection that used to be closely watched in the context of Section 355).

Apart from the usual motivations that might be parried about for such a move (including "fit and focus"), part of this design is to take advantage of the REIT's popularity and sex appeal. Vencor shareholders are to receive one VenTrust share and one new Vencor share for each share of old Vencor that they now own. Unfortunately, the distribution is a taxable transaction to both Vencor and its shareholders, although the company expects that it will incur little or no taxable gain as a result of the transaction. For further details, see Adams, "Vencor to Split Into Two Publicly Traded Firms," *Wall Street Journal*, Feb. 2, 1998, p. A4. Vencor and various analysts cite a number of advantages of this plan. It does represent one of the continuing trend of taxable spinoffs.

On the nontaxable side, one of the entities originally spun off from Dun & Bradstreet Corp., Cognizant Corp., announced some time ago that it was itself splitting up (a second generation spin). Cognizant is a market research company with a stock market value of $7.3 billion. As planned, it would split into IMS Health, the company's healthcare information business, and Nielsen Media Research, which tracks audiences for television ratings. As is so often the case, the stated reason for the separation is the different customers and opportunities of each entity,

Continued on Page 8

MORE SPINS

Continued from Page 7

according to those knowledgeable about the situation. For further details, see Lipin, "Cognizant, A D&B Spinoff, to Split In Two," *Wall Street Journal*, Jan. 15, 1998, p. A3. Dun & Bradstreet originally announced its three-way split in January 1996, and each of the resulting entities has made true the Dun & Bradstreet notion that the three companies apart would be worth far more than they were together. As to the Cognizant business, Cognizant hopes the separation of its two main businesses will allow the faster growing healthcare data service to receive a richer price-to-earnings multiple than Cognizant currently has. The transaction is to be accomplished by what is hoped will be a tax-free distribution of IMS shares, expected by mid-1998 assuming that the requisite Internal Revenue Service approval is obtained. *Id.*

Another announcement concerned Jefferies Group, Inc., the stock brokerage firm, which will split itself in an effort to boost its electronic stock trading unit, Investment Technology Group, Inc. The proposed spinoff will involve a new holding company, Jefco, to allow current Jefferies Group shareholders to end up holding all of the shares in Jefco and 82.3% of the shares in Investment Technology Group. There are a number of fillips to the plan. However, as is typical, the spinoff requires the approval of the Board, and the approval of the shareholders of both Jefferies Group and Investment Technology Group. Of course, various regulatory and contractual approvals are required, too, including a favorable ruling from the Internal Revenue Service. For details see Ip, "Jefferies Group Will Split Itself Into 2 Companies," *Wall Street Journal*, March 18, 1998, p. C13.

More Taxable?

In another move, Telescan, Inc. announced plans to spinoff assets unrelated to its core financial services information technology business. The result of the spin will be to pay the proceeds to shareholders in the form of a dividend. See "Spinoff of Assets Planned; Holders to Get Dividend," *Wall Street Journal*, Jan. 7, 1998, p. B4. Although the press coverage said nothing about its tax planning, presumably the transaction would be a taxable spin if the announcement has already been made that there would be dividend to shareholders.

Turning across the oceans, although obviously not being pursued under Section 355 of the Internal Revenue Code, the continuing popularity of spinoff-like transactions overseas can be seen in the face of Coca-Cola Amatil Ltd. of Australia, the biggest overseas bottler of Coke. The plan is to split the bottler into two companies, resulting in a major reorganization of Coke's global bottling systems. Coca-Cola Amatil Ltd. of Australia operates in 18 countries and on three continents, and plans to spin off its European bottling operations as a separate publicly listed company.

Coca-Cola Company itself owns a 33% holding in Coca-Cola Amatil. After the smoke from this split clears, the Atlanta hub company will still have a stake in Amatil, and it will increase to 40%. The stake in the European spinoff will be 50%. See Deogun, "Coke Overseas Bottler to Split Into Two Firms," *Wall Street Journal*, March 5, 1998, p. A3. ■