More Spins on the Drawing Board

by Robert W. Wood • San Francisco

Following the trend over the past few years in favor of spinoffs, Kemper Corp. has announced that it will spin off the unprofitable Kemper Securities unit to shareholders and employees. Although Kemper had been seeking a buyer for the entire company since late last year (in the wake of its failed agreement to be acquired by Conseco, Inc. for $2.68 billion), apparently now the spinoff will serve as the alternative to that more global disposition. See "Kemper Corp. is Planning to Spinoff Its Unprofitable Securities Subsidiary," Wall Street Journal, April 4, 1995, p. A2.

The plan calls for 55% of the stock of Kemper Securities to be sold to the company's employee stock ownership plan for $72 million. Approximately 44% of the stock would be spun-off to the shareholders of Kemper Corp. The remaining 1% would be issued to Kemper Securities' management in nonvoting stock.

The proposed transaction has been viewed by analysts as removing an albatross that has blocked the planned sale (one wonders whether this will be an asserted business purpose for a ruling request).

James River Jumps on Board

James River Corp. has also announced a spinoff of most of its business paper and packaging operations to shareholders. The asserted reason is to allow a concentration on the company's Dixie paper cups, Brawny paper towels, and other consumer paper products. See "James River Sets Spinoff of Some Business Lines," Wall Street Journal, March 30, 1995, p. A3. Apparently the company has looked at various alternatives for the sale of the unit to be spun-off, but concluded that a spinoff was better for shareholders. The spinoff is to consist mostly of the company's communications papers unit, which

Continued on Page 8

MORE SPINS

Continued from Page 6

manufactures paper for business uses such as advertising catalogs, direct mail, and copy paper for offices. Together with packaging paper operations that are also designed to be included in the spinoff, the new entity is expected to have annual sales of $1 billion initially.

Popular press coverage of the James River spinoff notes that it is subject to a favorable ruling from the IRS, and notes some of the benefits that are expected to follow: direct access to the capital markets.

Limited Appeal

Limited, Inc. is said to be pondering a split of its operations into two public companies, one for the well-known women's apparel stores bearing The Limited name, and the other for the more successful lingerie and toiletries units. In recent years, the women's apparel stores have slumped in sales, while the lingerie and toiletries operations have taken off. See "Limited Considers Splitting Operations Into Two Publicly-Traded Companies," Wall Street Journal, March 29, 1995, p. A3.

News of the anticipated severing of stagnant from fast-growing operations was welcomed by the stock market, with an initial up-tick in Limited's stock following the announcement. Limited said that it would retain control of both companies, offering 10-15% of the stock in each company to the public. The two public companies would consist of the clothing stores (comprised of Limited, Express, Lerner, New York and Lane Bryant stores) on the one hand, and Victoria's Secret, Bath & Body Works, and several other lingerie and toiletries chains, on the other.

Beverly Enterprises Plan Reduces Value

Finally, while most spinoffs assume that the separated businesses will have a higher value standing on their own than together, this may not always be so. At least one recent example suggests that the often assumed value premium of separate companies needs some scrutiny. While investors generally love spinoffs, often putting a significantly higher value on separate entities than on the combined company, this has not been the case with Beverly Enterprises. Beverly recently announced that it would distribute to shareholders its small but profitable Pharmacy Corp. of America unit. Pharmacy Corp. of America supplies drugs to Beverly's own nursing homes and other institutions. Beverly Enterprises is the nation's nursing home giant. See "Beverly Enterprises' Spinoff Plan May Make Two Companies Worth Less on Their Own," Wall Street Journal, April 19, 1995, p. C2.

According to reports, some analysts fear that the two entities will be worth less on their own than they are together. The stock has slipped somewhat, and some investors at least have unloaded their positions. One large concern is the apparent flip-flop about Beverly's interest in and commitment to the pharmacy business. Indeed, Beverly has been integrated, achieving a competitive advantage by supplying its own nursing homes at cost with pharmaceutical supplies. In fact, the pharmacy business has previously been viewed as so integral to Beverly's operations, that Beverly provided no separate information on the pharmacy business in its annual financial statements filed with the SEC. See "Beverly Enterprises' Spinoff Plan May Make Two Companies Worth Less on Their Own," Wall Street Journal, April 19, 1995, p. C2. This factor, together with various loan and goodwill amortization issues, leads some to conclude that the pharmaceutical and nursing home operations are worth more as a combined unit than as standalone companies. ■