

SLAUGHTER AND MAY /

# DEMERGERS: UNLOCKING VALUE

Strategic M&A Series



**CAPITAL FLOWS**  
Part of Horizon Scanning

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## ACHIEVING STRATEGIC REALIGNMENT

### Mastering the art of demergers

Demergers are among the most complex and high-opportunity transactions a company can undertake. Whether to realign focus on core business operations, increase profitability or satisfy shareholders, demergers require strategic precision. As M&A activity intensifies, we anticipate strategic M&A continuing through separations, divestitures, split-offs and spin-offs globally.

In the latest edition of our strategic M&A series, this publication explores the key issues and market considerations essential for delivering a successful demerger.

Additionally, we share insights from our recent experiences helping some of the world's most recognised brands unlock significant value from their portfolios across EMEA, APAC and the Americas.

We are keen to support your next strategic project and would be more than happy to arrange a conversation with you.

#### THREE KEY TAKEAWAYS

- 1 STRUCTURE** – understand the objective(s) for the company and shareholders and structure the deal to deliver on these aims – demergers are not one size fits all
- 2 READINESS FOR LISTING** – ensure the demerging entity's people, governance and policies are ready for life as a listed company on day one and bring the market along with the equity story
- 3 SEPARATION** – breaking up the existing group and managing the operational transition requires careful planning and co-ordinated execution, often across many jurisdictions

# ASSESS YOUR STRATEGIC OPTIONS

## Choosing the right path

It is not necessary to commit to one path at the beginning of the project. It is common for companies to run dual-track processes from the start or retain optionality to switch at a later stage.

Any carve-out is a lengthy process and market conditions, investor sentiment and business performance can all fluctuate throughout the life of the project, influencing the choice of structure. Exploring all three structures at the start of the project and continually testing the right path can help hone deal structure and terms and give confidence to management and shareholders on the chosen strategy.



### DEMERGER

- Potential for full separation of the businesses on day one or the existing group retaining a stake (allowing future realisation of proceeds)
- Existing shareholders can benefit from growth in share price of both groups – but a full demerger does not generate proceeds for existing group
- Demerging group must be ready and suited to life as a standalone listed company, with limited reliance on the demerging group
- Not as dependent on market conditions as an IPO



### MINORITY IPO

- No “clean break” – slower full separation of businesses, but ability for existing group to monetise retained stake over time
- Can generate cash proceeds for the existing group
- Requires a compelling equity story and appetite from new investors, leading to dependency on market conditions throughout the process



### SALE

- No listing process, entailing a lighter disclosure burden and potentially quicker process
- Target group does not need to be suited to life as a listed company
- Requires a willing and able buyer – potentially difficult for a very large group
- Generates cash proceeds for the existing group – but shareholders do not directly benefit unless that value is returned to them

# GETTING IT RIGHT

## Key issues to consider in a demerger

1

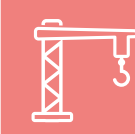


### TAX

#### THE RIGHT STRUCTURE

- A key consideration influencing the demerger structure that should be addressed at the outset
- Consider tax impact on shareholders, the demerged entity and the retained group – does the structure work for all parties?
- Will engagement with tax authorities be needed to test the structure? Ensure this is factored into deal process and planning

2



### STRUCTURING

#### WHAT IS THE PLAN?

- Parent objective determines chosen structure - does the parent wish to demerge all of its stake, monetise part of its interest or retain a stake? Does this fit with the equity story?
- Decide on the preferred listing venue – where is most appropriate (for the demerging entity and existing shareholders)? The demerging entity's capital structure and financing needs will influence the decision
- Does the current Holdco have sufficient distributable reserves to declare the demerger dividend?
- Is a pre-spin reorganisation required?

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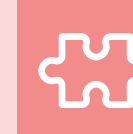


### DOCUMENTS AND LISTING PROCESS

#### PREPARE FOR DISCLOSURE

- The prospectus is the key document, requiring significant input from a wide range of internal teams, alongside the demerger agreement
- Key prospectus disclosures include the operating and financial review for the last three years, disclosure of historical financial information and an equity story
- AI capabilities can lead to a materially lighter load in due diligence and verification
- Does the transaction give rise to any disclosure or approval obligations for the parent entity?
- Financial disclosures can take a significant amount of time – getting accountants and advisers on board and engaged early is key

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### SEPARATION

#### ENSURING A SMOOTH BREAK-UP

- Operational readiness for separation and carving-out the demerging entity from the retained group is a long process that can require careful planning
- Is there a natural delineation of employees, customers, functions and processes?
- Consider right-sizing contracts and operations for the remaining group post-demerger
- Prepare for any transitional services needed
- Is a pre-spin reorganisation required?

# GETTING IT RIGHT

## Key issues to consider in a demerger

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### GOVERNANCE

#### ACHIEVING INDEPENDENCE

- Listing Rules and the UK Governance Code will require the demerging entity's current operations to be sufficiently independent
- Demerged entity must be ready to stand alone as a public company – with a radical overhaul of systems, controls and governance codes
- Board and committee selection must be appropriate and set the company up for its new public life – do management have recent and relevant experience? Are there sufficient independent voices?

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### SHAREHOLDER REACTION

#### COMMUNICATION IS KEY

- Build the equity story and investor engagement with shareholders early and bring them along
- Anticipate the shareholder profile and be prepared for activists – are there any major/vocal shareholders or a large retail shareholder base?
- Settlement is not just a matter for closing – consider the most appropriate listing venue early and the influence this may have (e.g. inclusion in indices)
- Establish parameters for any lock-up period, timing of sell down and the use of proceeds
- Demerger dividend?
- Is a pre-spin reorganisation required?

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### INCENTIVES AND AWARDS

#### THINK ABOUT THE TEAMS

- Consider the effect of the demerger on the value of existing share awards
- Establish a plan to preserve the value of existing share awards
- Evaluate options for new incentive arrangements at the demerged entity

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### BUSINESS AS USUAL

#### STEADY THE SHIP

- Planning and implementing a demerger is hugely time intensive for management
- Using temporary resources (including advisers) in the right areas at the right time can lighten the project load on management and help bring experience in particular areas
- Planning for future business focus and strategy as two distinct groups can focus minds post-completion

# SPOTLIGHT ON UK TAX ISSUES

## A key driver

### STANDARD AIMS FOR A UK DEMERGER

- 1 No dry income tax charge for existing group holdco's UK shareholders
- 2 CGT rollover treatment for existing group holdco's UK shareholders
- 3 No CGT for existing group holdco on transfer of the demerging group
- 4 Minimise UK stamp duties
- 5 Obtain UK tax clearances

PLUS: Achieve the above for overseas shareholders too

All require strict statutory conditions to be met

Key timetabling issue

Overseas tax authorities engagement

- ✓ Whose tax treatment do you care about?
- ✓ What tax result are those people expecting?
- ✓ What rules and reliefs are in play?
- ✓ How can that result be achieved?

# MAKING IT WORK

## Advising GSK on the largest demerger and spin-off listing in over a decade to create Haleon



### DEAL STATS



market cap of  
£30bn+ on listing



large multinational corporation,  
demerging business run via a  
joint venture



global consumer healthcare  
business operating in over  
170 markets



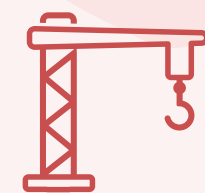
listing on the LSE  
with ADRs on NYSE



parent and JV partner  
each retained stakes



### NAVIGATING THE ISSUES



#### STRUCTURE

a bespoke structure tailored for both groups' particular needs as a result of intricate planning; worked with the company to navigate the path to a smooth demerger involving local laws across multiple jurisdictions



#### RETAINED STAKE

crafted a plan for each of the remaining group and its JV partner to retain a stake in the demerged entity, including arrangements governing the plans for sell down through a lock up / orderly marketing agreement



#### JOINT VENTURE PARTY INVOLVEMENT

managed relationship with JV partner throughout the demerger process, establishing a clear allocation of risk and cost and working collaboratively to complete the demerger process



#### SHAREHOLDER REACTION

competing proposals for the demerged entity's future created hurdles, overcome through careful consideration of the merits of the chosen path and effective shareholder engagement



#### GOVERNANCE AND READINESS FOR LISTING

on-hand support to prepare the demerged entity for life as an independent entity, including by establishing its own leadership, systems and controls and securing ongoing operational interaction between the retained group and demerged entity until the businesses were fully disentangled



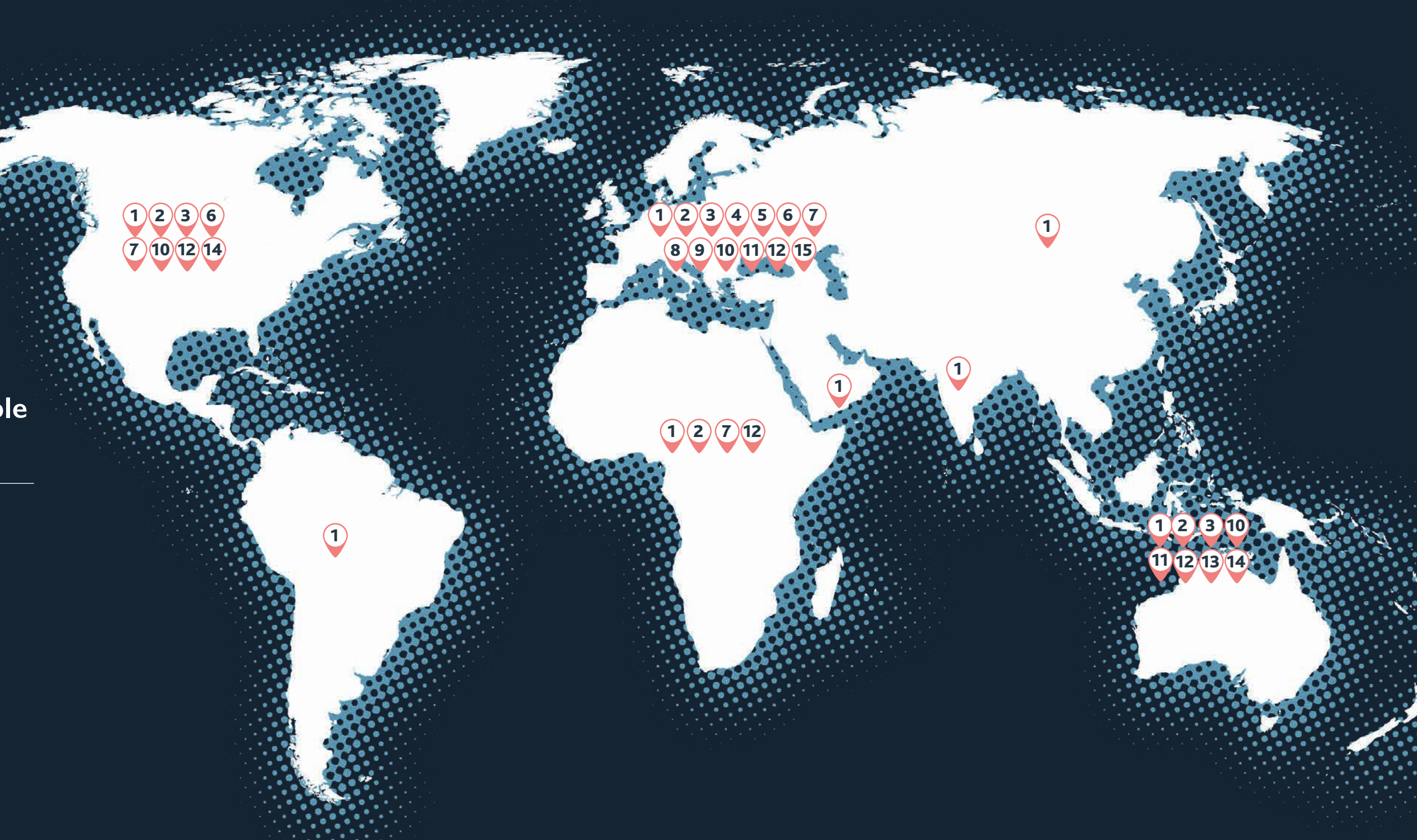
#### USE OF PROCEEDS

devised and implemented the most effective strategy for using the demerger to unlock capital for further M&A

# OUR EXPERIENCE

## Separations and spin-off listings

- 1 GSK / Haleon**  
 on the £30bn demerger of its consumer business to form Haleon plc  
*Europe, Americas, RoW*
- 2 BHP / South32**  
 on the demerger of South32 and its primary listing on the Australian Stock Exchange and secondary listing of its shares on the Johannesburg Stock Exchange  
*Africa, Americas, Europe, APAC*
- 3 Cadbury Schweppes / Dr. Pepper Snapple**  
 on the demerger of Dr. Pepper Snapple Group Inc and its listing on the New York Stock Exchange  
*Europe, Americas, APAC*
- 4 Direct Line / Royal Bank of Scotland**  
 on its spin-off from Royal Bank of Scotland and its listing on the London Stock Exchange  
*Europe*
- 5 Esure / GoCo (then Gocompare.com)**  
 on the demerger of GoCo (then Gocompare.com) and its listing on the London Stock Exchange  
*Europe*
- 6 GKN / Dana**  
 on the demerger of GKN Automotive to form Dana plc  
*Americas, Europe*



- 7 Google DeepMind / Isomorphic Labs**  
 on the creation of Isomorphic Labs  
*Europe, Americas*
- 8 Interserve / Tilbury Douglas**  
 on the separation of its Tilbury Douglas construction division  
*Europe*
- 9 Investindustrial / CSM**  
 on the business separation aspects of its acquisition of CSM's bakery ingredients business  
*Europe*
- 10 Prudential / Jackson Financial**  
 on the spin-off its US business Jackson Financial Inc. and its listing on the New York Stock Exchange  
*Europe, Americas, APAC*
- 11 Prudential / M&G**  
 on the spin-off and listing of M&G plc on the London Stock Exchange  
*Europe*
- 12 Reckitt / Indivior**  
 on the spin-off of Indivior and its listing on the London Stock Exchange  
*Europe, APAC, Africa, Americas*
- 13 Swire Pacific / Swire Properties**  
 on the spin-off and separate listing by way of introduction on the Hong Kong Stock Exchange of Swire Properties and on the earlier proposed \$2.7bn spin-off and separate listing of Swire Properties  
*APAC*
- 14 Tencent / Tencent Music**  
 on the spin-off and listing of Tencent Music on the NASDAQ stock exchange  
*APAC, Americas*
- 15 Whitbread / Costa Coffee**  
 on the proposed demerger of Costa Coffee, which was ultimately structured as a £3.9bn sale to the Coca-Cola Company  
*Europe*



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