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## DEALS & DEAL MAKERS

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# More and More, Mergers of '90s Are Becoming Today's Spinoffs

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Are yesterday's mergers becoming today's breakups?

From **Tyco International** and **Merck** to **AT&T** and **Citigroup**, many of the biggest acquirers of the 1990s are suddenly dumping businesses. With stock prices sinking and the Enron scandal pressuring companies to simplify their businesses, more and more companies are unloading units to shareholders or buyers.

Tyco is leading the charge, with plans to split into four separately traded companies after spending nearly \$50 billion on acquisitions in the past few years. "The sum of the parts is greater than the whole," said Dennis Kozlowski, Tyco's chief executive officer, who often preached the opposite during the 1990s.

Citigroup plans to spin off parts of its Travelers insurance business, which merged with Citicorp in 1998 to form the financial-services giant. In announcing the merger, Citigroup's chief executive, Sanford I. Weill, said the deal was "about cross-marketing and providing better services to clients." In announcing the spinoff, Mr. Weill said that the parts of the insurance business it's unloading weren't as profitable as other units and that the cross-selling synergies "really didn't work well."

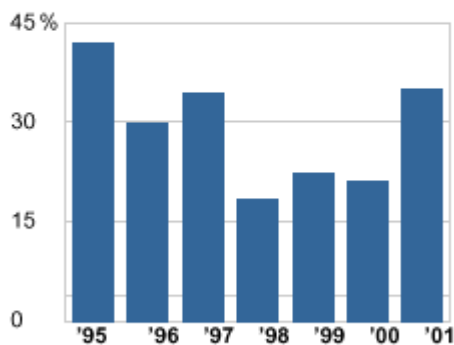
Merck last week announced plans to sell off its Medco prescription-drug business, which it bought in 1993 for \$6.6 billion. AT&T agreed in December to sell most of its cable business, which it built through acquisitions totaling more than \$100 billion during the late '90s.

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- [Citigroup to Split Off Travelers Unit In an IPO](#)<sup>5</sup>  
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## UNDOING THE DEALS

Many of the biggest acquirers of the 1990s are suddenly selling off the businesses they acquired. Here are separation or spinoff deals as a percentage of total mergers and acquisitions.



Source: J.P. Morgan Chase

The business of "separations" -- spinoffs and sales of subsidiaries -- accounted for 35% of the total merger and acquisition market last year, up from 21% in 2000 and 22% in 1999, according to JP Morgan. In January alone, there were seven announced spinoffs, up from four in January 2001, according to Thomson Financial. By contrast, the number of mergers in January slowed to the lowest level on record since 1994.

The spate of breakups marks a sharp U-turn for some of the country's most acquisitive CEOs and casts doubt on many of the promises of the biggest merger wave in history. Companies spent more than \$8.7 trillion on mergers and acquisitions in the 1990s. Yet as the economic tide recedes, more and more of the deals are being reversed.

Repeated studies show that well over half of all mergers and acquisitions fail to enhance shareholder value or live up to their promises. A 1999 report by KPMG International analyzing 700 of the most expensive deals from 1996 to 1998 found that 53% actually reduced shareholder value.

"There was so much activity in the '90s that it's not surprising to see companies get rid of some of the bad stuff," said Steven Kaplan, professor of finance at University of Chicago.

Granted, some experts downplay the latest deals, saying the splits are simply part of the everyday churn of business. Divestitures surged along with acquisitions throughout the 1990s, as companies shuffled assets and sold off certain businesses even as they bought others. The only reason spinoffs are more visible now, they say, is that the merger market has cooled.

"I don't think this is the start of a trend," says Jack Levy, head of mergers and acquisitions for Goldman Sachs Group. "These deals are just examples of the continual ebb and flow in portfolio realignment. I would not expect a surge of spinoff transactions."

Others say the spinoffs aren't necessarily a sign that the deals didn't work. Companies often spin off strong businesses to give the units more independence and access to capital. By selling off less profitable units, companies can also devote more resources to their more lucrative core operations. Merck's Medco unit is expected to fetch between \$12 billion and \$15 billion if it's sold -- about twice what the company paid for the business.

"Not all de-mergers are a sign of failure," says Mark Sirower, a merger specialist at Boston Consulting Group.

Yet history is filled with merger booms that are followed by de-merger busts. Much of the deal activity of the 1980s came from undoing the deals of the 1960s and 1970s, when giant conglomerates such as ITT, Gulf & Western and LTV were built. The nation's first major merger wave, beginning in the late 1800s, saw the creation of industrial titans such as Standard Oil and U.S. Steel, which were broken apart in the early 1900s by antitrust laws.

For bankers, breaking up companies can be as profitable as merging them. Tyco's breakup alone is expected to generate hundreds of millions of dollars in fees from structuring the spinoffs, floating the shares or selling them to a strategic buyer. Mergers and acquisitions generate some of the highest fees on Wall Street, yet with mergers flagging, breakup and spinoff fees are

becoming increasingly important as a source of deal fees.

It's not always the same banks that do the merging and splitting. Tyco, for instance, often hired **Merrill Lynch** for its acquisitions, but is using **Goldman Sachs** for its spinoffs. Merck used **Morgan Stanley** as its adviser for buying Medco and has hired Goldman Sachs for spinning it off.

Bankers say a number of companies are in talks to do spinoffs in the wake of the Tyco deal, and many are under increasing shareholder pressure to sell off underperforming units, including **Motorola, Emerson Electric, Georgia Pacific** and **Philips Electronics**.

The post-Enron push for transparency is also driving deals. While previous de-merger waves were driven by a shift from conglomerates to more focused companies, experts say the latest breakups are also being driven by the need for clear accounting and simplified balance sheets.

"After Enron, I think we could see a race to the pure," says Robert Spatt, a takeover lawyer at New York law firm Simpson Thacher & Bartlett.

Spinoffs also carry special advantages in a downturn. With stocks and asset values low, companies have an easier time unloading businesses to shareholders than to a potential buyer. Spinoffs can even be structured as tax-free deals.

"Done properly, the technique has great value to accomplish the goal of disposing of an asset without incurring a tax," says Mr. Spatt.

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