

Generating Support for a Spin-off

Situation Analysis: Following the IPO of nearly 20% of a subsidiary, a medical device company planned to spin out a high-growth, high-margin subsidiary in a tax-free dividend to shareholders. The parent company was a “cash cow” with lower margins and lower growth, which were somewhat obscuring the subsidiary’s prospects, and its shareholder base included value investors and a large retail holding. The challenge was to garner support for the spin-off and demonstrate to investors that each company was more valuable on a stand-alone basis to ensure that the spin-off did not turn a small-cap stock into two “orphaned” micro-caps. An added challenge was to create distinct identities and establish Wall Street support for each company.

LHA’s Solution: Prior to the IPO quiet period, LHA arranged a series of one-on-one meetings with members of the investment community likely to be interested in the high-growth subsidiary. These meetings were conducted by senior management of the parent company. Following the IPO, LHA arranged an aggressive schedule of one-on-one meetings with investors and analysts, conducted by senior management of the spin-off.

To establish separate identities for each company, LHA created two sets of collateral materials with distinctly different looks, including a Fact Sheet and investor presentation. For the spin-off, the materials were modeled on the IPO road show presentation graphics that had branded them with investors. To further distinguish the two companies, quarterly conference calls were scheduled on different days and different account executives were assigned to the two accounts.

Results: Eighteen months later, the spin-off’s market capitalization had more than quadrupled and five analysts followed the company, all with “Buy” or “Strong Buy” ratings. The company was ranked among the “Top Performing IPOs of 2004.” Today, *Investors Business Daily* regularly mentions the company and ranks it highly, with support from a well-executed business strategy and fulfillment of the promise of high growth.