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Trending Topics from J.P. Morgan Corp Fin Advisory | Week of May 28, 2018

1. Rise of the (taxable) spin-merge transaction

Key Takeaways

- The first half of 2018 has seen a number of spin-merge transactions across several industries.
- In an environment with increasing antitrust regulatory scrutiny and focus on deal closing risk, along with lower overall corporate tax rate, the use of taxable spin-offs to facilitate acquisitions may continue to feature more prominently than before (the more prevalent tax-free iteration is frequently referred to as a "Reverse Morris Trust" or "RMT").

Spin-merge transactions allow a parent company to spin off a divested business to shareholders (usually without corporate tax leakage) while simultaneously combining it with a merger partner. The merger in turn delivers scale and operational synergies, creating additional value for shareholders. Since late 2017, there have been over a half dozen spin-merge transactions announced, including a number of large-scale transactions. Recently, the spin-merge technique has been increasingly utilized to facilitate an outright acquisition of a target company, which in turn makes the spin-off component taxable at the corporate level. Tax-free transactions are preferred (requires Parent Company shareholders to retain greater than 50% of combined company), but taxable spin-offs can also be pursued where there is a compelling value creation story. (Recent taxable transactions include; Disney/21CF, Wyndham Worldwide/La Quinta, GE/Wabtec, Boeing/KLX, Genuine Auto Parts/Essendant).

J.P. Morgan Corporate & Investment Bank Marketing, 4 New York Plaza, Floor 12, NY1-E035, New York, NY, 10004-2413, United States.