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Parent company influence on spin-off performance

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RESUMO

Nesta tese de mestrado procurou-se analisar a influência da empresa-mãe no desempenho das spin-off. Definiram-se questões de pesquisa de modo a descobrir as razões da criação de spin-off, para compreender os tipos de relações spin-off e o apoio da empresa "mãe" às spin-off no período de pós-spin, bem como identificar os tipos de recursos e conhecimentos, transferências e fazer avaliação do desempenho das spin-off após s sua criação. A fim de encontrar respostas às questões de pesquisa, realizou-se um estudo exploratória, de design qualitativo, recorrendo-se, poisteriormente, à análise quantitativa e descritiva dos dados. O estudo qualitativo foi desenvolvido com o recurso a entrevistas a sete entrevistados, ocupando cargos administrativos e de gestão em empresas de spin-off de EUA e Canadá.Análise, relizando-se uma análise de conteúdo dos dados. O estudo quantitatico recorreu à análise dos rácios financeiros e relatórios de contas sobre o desempenho spin-off.. Durante a análise dos questionários constatou-se que a maioria dos entrevistados mencionaram a maximização de valor ao acionista como a principal razão da criação de spin-off. Apesar da spin-off ser considerada na literatura como entidade independente, 3 das 7 spin-offs foram consideradas dependentes das suas empresas-mãe em recursos, conhecimento e serviços, enquanto empresa-mãe desempenhava um papel de 'manager', 'fornecedor » e « distribuidor » para spin-off. Maioria dos spin-offs recebeu ajuda da empresa-mãe sob a forma de dinheiro, funcionários e gestão. De entre o conhecimento que foi transferido da empresa-mae para a spin-off, destaca-se o pessoal gestão, técnico, tecnológico, marketing, produção e propriedade intelectual. Com base na análise dos rácios financeiros foi descoberto que a performance da spin-off, que não está relacionada com a empresa mãe, desde o ano de separação, pois continua a gerar perda líquida, apesar de que empresa-mãe de spin- off ainda partilhar com a a spin-off recursos e pessoal. A análise de desempenho com base nos indicadores financeiros da spin-off permitiu concluir que o desempenho spin-off tinha vindo a melhorar ligeiramente desde a separação da empresa-mãe. O serviço financeiro da spin-off tem ambições de se tornar um dos líderes no setor financeiro.

Palavras-chave: spin-offs empresariais, caracteristicas das spin-off empresariais, razões e mudanças no processo de criação, relações da spin-off com empresa-mãe, recursos e conhecimentos base das spin-off, "performance" da spin-off.

ABSTRACT

In this master thesis was made investigation of parent company's influence on spin-off performance. Research questions were created in order to find out the reasons of spin-off creation, to define types of spin-off and parent-spin-off relationships in the post-spin-off period, to identify types of resources and knowledge, parent transfers to spin-off and to make evaluation of spin-off in post-spin-off performance. In order to find answer on created research questions qualitative and quantitative methods of analysis were used. Qualitative analysis implemented in the form of open-ended questionnaires was answered by 7 respondents, holding administrative and managerial positions in spin-off companies of USA and Canada. Quantitative analysis was made through financial ratios analysis of financial service and energy spin-off performance. During analysis of questionnaires was found that majority of respondents mentioned shareholder value maximization as the main reason of spin-off creation. Despite the fact, that spin-off considered in the literature like independent entity, 3 of 7 spin-offs were found dependent on their parent companies in resources, knowledge and services, while parent company was in a role of 'manager', 'supplier' and 'distributor' for spin-off. Majority of spin-offs got help from parent in the form of cash, employees and management. Among knowledge that was transferred from parent to spin-off was mentioned managerial, technical, technological, marketing, production and intellectual property. Based on the financial ratios performance analysis of energy spin-off was found out that energy spin-off, unrelated to its parent , since the year of separation continue to generate net loss, despite those fact that parent company of spin-off still shares with it resource and personnel. Based on financial ratio performance analysis of financial service spin-off was found out that spin-off performance had been improving slightly since separation from parent. Financial service spin-off have plans to become one of the leaders in the financial industry.

Keywords: Corporate spin-offs, corporate spin-off characteristics, reasons and challenges of spin-off creation, parent-spin-off relations, resource and knowledge base of corporate spin-off, corporate spin-off performance.

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ROA - Return on assets

ROE - Return on equity

CEO - Chief Executive officer

REIT- Real estate investment trust

INTRODUCTION

This chapter introduces master thesis. Background of the subject is followed by purpose of the study and research questions, by statement of the problem, justification of the study, significance of the study and thesis structure.

1. Background

As Bernardt et al. (2002) underline, one of the most important characteristic of spin-off are expressed in independence from parent and support getting from parent in a form of resources and knowledge transformation.

Across the literature can be found different reasons of why companies deicide to create spin-off. For example, according to Puteh (2004), companies create spin-off in order to focus on core competences. Miles& Rosenfeld (1983) while investigating spin-offs in their research found out that spin-off announcement has positive effects on shareholder wealth increase**.**

What concerns, types of corporate spin-off, Van de Velde et al. (2007) defined assisted, restructuring driven and entrepreneurial spin-offs. Across the literature were also found market spin-off and real investment trust spin-off. Van de Velde et al. (2007) in their work after measured performance of restructuring driven, assisted and entrepreneurial spin-off found out, that restructuring driven spin-offs had the weakest results in terms of growth, profitability and liquidity.

Parent companies help spin-off with separate business formation by transfer of tangible and intangible resources. Generally, financial resource and infrastructure were considered as the main resources for transformation. But nowadays intangible resource such as knowledge that parent company gives to her spin-off through transformation of employees and managerial and administrative personnel appeared to be of much more important significance. (Becker & Gassmann, 2006).

Roni and Wayne (1995) in their research found that in particularly riskier, more leveraged and less profitable companies choose to divest through spin-offs. Authors mentioned that spin-offs suffer from reduction in operating performance subsequent to its the formation. In the work of Puteh (2004) was mentioned that in most cases companies spin-off undervalued segment on order to increase market value for the parent and spin-off. On the other hand, Boreiko and Murgia (2013) by the results of made research conclude that only internally developed subsidiaries and market-related units after being spun off improve operating efficiency and create significant market value.

2. Purpose of the study and research questions

Main purpose of the study is to investigate influence of the parent company on spin-off performance. In order to achieve main purpose of the work were created following objectives:

Objectives

1. To identify reasons of spin-off creation;
2. To examine resources and knowledge, that parent company transfers to spin off;
3. To define how parent company transforms its knowledge and resources to spin off company;
4. To evaluate spin-off performance in a post-spin-off period.

On the base of objectives were created following research questions, which are:

Research questions

1. Why parent company decided to create spin-off?
2. Which resources and knowledge parent company transfers to spin off?
3. In which way parent company makes transformation of knowledge and resources to spin-off company?
4. What is the spin-off performance in a post-spin-off period?

In order to implement main purpose and answer research questions of this study, mixed method is used to investigate influence of parent company on spin-off performance based on general perception of respondents in managerial positions from USA and Canada and based on evaluation of performance changes in post-spin-off period of two spin-offs from different industries. Research focus is on investigation of influence of parent company on spin-off through finding reasons of spin-off creation, identification of spin-off types and post-spin-off relationships with parent, definition of types of knowledge and resources that parent transfers to spin-off and evaluation of spin-off performance in post-spin-off period.

The conclusion of this research provides future researchers with knowledge about main reasons and challenges of spin-off creation, with identified parent–spin-off relationships in a post-spin-off period, with found resource and knowledge transfer and with estimated changes, which occurred in spin-off after separation from the parent.

3. Statement of problem

In the studied literature, exist different points of view on spin-off independence from parent company and on parent company influence on spin-off. According to Canina & Klein (1998), Tübke (2004) and Chemmanur & Paeglis (2000) spin-off after separation from parent become independent entity. Slovin et.al (1995) also state that spin-offs introduce administratively and financially independent entity of the parent. However, in most cases spin-off continues take resource from parent company and use parent help in order to implement its goals in post spin-off period. In addition to this fact, Parhankangas & Arenius (2003) and Lindholm-Dahlstrand (2000) mention that business idea of spin-offs fully based on knowledge and competences that were developed in the process of work within the parent company.

As it can be seen despite those fact, that spin-off is considered to be independent, full independence from parent is still questionable. This have been a driving motive to research for the influence of the parent company on corporate spin-off in post spin-off period. In order to achieve this study investigate the reasons of spin-off creation, types of parent-spin-off relationships in post-spin-off period, types of transferring resource and knowledge for parent and make performance evaluation of spin-off companies in post-spin-off period.

In order to achieve a wide range of information, the study adopted primary and secondary data. Where primary data introduce open-ended questionnaires, which were obtained from respondents, holding administrative and managerial positions in spin-off companies of USA and Canada. Secondary data introduces documentary analysis of company’s annual reports and financial ratios analysis of two spin-off companies from different industries.

4. Justification of the study

Across the literature different authors studied different aspects of corporate spin-off in post-spin-off period. For example, Sapienza et al. (2004) investigated how knowledge relatedness of parent company and spin-off influence post-spin-off growth. In order to accomplish this author compare available subsidiary performance data before spin-off with data of post-spin-off period. Parhankangas & Arenius (2003) studied dependence of spin-off on resources provided by the parent company.

On the other hand Chu et al. (2010) in their research of academic spin-offs found that spin-off performance depends on years, that CEO spent for serving at the parent company before coming to spin-off , on method of company's establishment on number of resources that parent company shared with spin-off. During the research was found out that there is more possibility that performance of spin-off will increase if operations of spin-off linked to the parent and if CEO of spin-off company was working for a parent company for a long period. Authors mention that spin-off has more chances to increase its performance if it has access to parent company's resources. However, unlike current master study, which focuses on corporate spin-off, the study of Chu et al. (2010) was focused on academic spin-off. In addition to that, focus of work Chu et al. (2010) was more on influence of management experience, resources and method of spin-off creation on post-spin-off performance changes.

This conclude that little has been studied about influence of the parent company on spin-off performance in post-spin-off period. In the process of studying literature about corporate spin-off phenomenon, was found out article of Bruneel et al. (2012), where in the part of 'limitations and future research directions' was proposed topic for future research. Therefore, this became a driving motive to study the influence of the parent company on corporate spin-off performance.

5. Significance of the study

Results of this thesis can be helpful for future researches, who want to make more in-depth analysis of parent company's influence on spin-off performance, increasing reliability of results by using bigger sample of respondents in questionnaires or by conducting in-depth interviews. Results of this study also will be helpful for managers and shareholders of other spin-off and parent companies. Because the research that was made in this study opens main reasons and benefits of spin-off creation, makes evaluation of main challenges on the road of spin-off creation, considers parent-spin-off relations, highlights resources and knowledge, with which can be funded spin-offs and gives suggestions for spin-off creation and management. Suggestions are given in a form of recommendations from managers of spin-off companies.

6. Structure of the study

Master thesis consist of 3 main chapters, which are literature review and conceptual framework, methodology and analysis, discussion and findings. Also thesis include introduction, conclusion, limitations and areas for further research.

Introduction – Include background, justification of the study, its purpose, significance and structure.

Chapter 1 – Literature review and conceptual framework. This chapter include literature review, which answers to research questions of given work. Main topics, that included are: spin-off overview, spin-off definition and characteristics, reasons and challenges of spin-off creation, resource and knowledge base of corporate spin-off and evaluation of spin-off performance in post-spin-off period.

Chapter 2 – Methodology. Methodology chapter describes and explains chosen methods of research, the process of data collection and data analysis.

Chapter 3 – Analysis, Discussion and Findings. This chapter introduce analysis and explanation of obtained findings. Chapter consist of two parts of analysis. First part include analysis and discussion of findings of open-ended questionnaires and second part make evaluation and discussion of changes that occurred in performance of two spin-off companies in post-spin-off period.

Conclusion – Conclusion part underline key findings of the study. It include limitation of study and areas for further research.

CHAPTER I: LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

This chapter will present overview of previous studies that describes the topic of research. The first part of the chapter presents literature review of 'spin-off overview'. The second part of the chapter introduces literature review about 'information about spin-off definition and its main characteristics'. The third part of the chapter will evaluates literature review about 'reasons and challenges of spin-off creation'. The forth part covers a review of the literature about 'resource and knowledge base of corporate spin-offs'. And the fifth part of the chapter discovers literature review about 'approaches for corporate spin-off performance evaluation'.

1.1 Spin-off overview

1.1.1 Spin-off definition and types

Determination of "spin-off" was studied internationally. Spin-offs first appeared in USA in 1920s and became popular since 1950s. (Kirchmaier, 2003) According to Gaughan (2002), notion spin-off gained amplified popularity in Europe only in early 1990s.

Exist literature on spin-off definition is heterogeneous (Tübke, 2004). Veld and Veld-Merkoulova (2008) defines concept "spin-off" like a form of demerger. Parhankangas & Arenius (2003) introduce spin-off like a kind of company, the business idea of which fully based on knowledge and competences that were developed in the process of work within the parent company. Similar idea can be seen in definition of Lindholm-Dahlstrand (2000), where spin-off companies are introduced as important sources of knowledge transfer from already established companies to new business. According to Borges & Filion (2013), notion spin-off denotes to the output and to the process, which generates this output. Authors explain spin-off like a process, which concerns the fact when new company or company's entrepreneurs, or technology, or three of them, that are used in the new entity, left the parent company or were released by it. The result of this process is a creation of new entity, which is called spin-off. As Van de Velde et al. mention that spin-off can be considered as both failure and opportunity. Failure in case, when the project was stopped because it failed to meet expectations. And an opportunity in case when individual leaves the parent company in order to develop it ideas, that are not possible to realize within the parent.

Two basic types of spin-off can be defined, which are corporate spin-offs and academic spin-offs. Corporate spin-offs are created by private companies and in most cases due to reorganization of the parent company. Parent company generally transfer to spin-off some of its resources and knowledge. Meyer (2003) highlights three main elements of spin-off process, which are: parent organization (university or company depends on type of sin-off), entrepreneurs and technology.

Academic spin-off have either university or public research institution as their mother company. (Dzurpka & Vajda, 2014). Borges & Filion (2013) define that academic spin-off happens when students, professors and researches during their work at universities gain technological knowledge or invent new technology. In the future when they become entrepreneurs, that knowledge that they gained and new technology will be used with the assistance of university business incubator. The main aim of academic spin-offs is to commercialize results of research made in university or public research institution through creation of new independent entity. (Dzurpka & Vajda, 2014). Fryges & Wright (2014) and Di Gregorio & Shane (2003) state that despite of existence of variety of definitions of academic spin-off, all of them require the same process that demands knowledge and technology transfer from the university to the academic spin-off. Fryges & Wright (2014) define two types of academic spin-off, which are pure academic spin-off and hybrid academic spin-off. Pure academic spin-off appears when the entire team of founders, which compose of researches, left university incubator. And hybrid type of academic spin-off occurs when team of founders include both university researches and founders outside the university sector. One of the advantages of hybrid spin-off is possibility with the help of founders outside the university sector working experience to improve spin-off knowledge base. As this work is about corporate spin-off, academic spin-offs will not consider here anymore and existed corporate spin-off types will be analyzed in the separate question of this work.

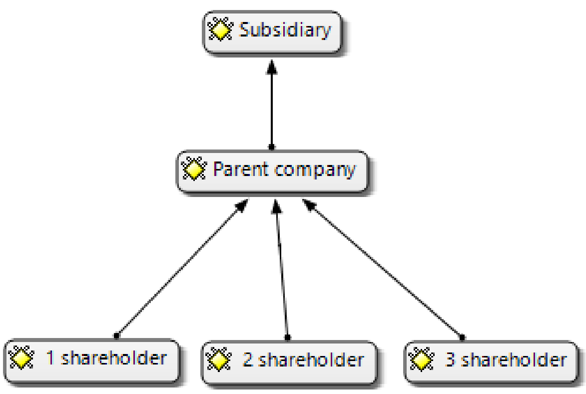
In the spin-off guide of Wachtell, Lipton, Rosen & Katz (2014) is admitted that process of spin-off fulfilment is rather complex and requires taking into account countless financial and legal, capital markets and tax and other factors. Authors believe that individual questions that will appear after spin-off creation will depend on much on: degree of business integration before transaction, on relationships between the business after transaction and on the transaction structure. According to the Alexander et al. (1984) spin-offs can occur voluntarily or involuntarily. Involuntary spin-offs generally occur due to the governmental antitrust ruling. Voluntary spin-offs can appear as a result of decisions that were willingly made by the management of the parent company in order to bring benefit to its shareholders.

1.2 Corporate spin-off definition and characteristics

1.2.1 Definition of corporate spin-off

Last decades more and more popularity have gained corporate spin-off phenomenon, because a big number of companies tried to make changes in their organization by spinning off particular divisions and thereby reducing the size of the parent companies. Boreiko & Murgia (2013) in their work admit, that concept of corporate spin-off in Continental Europe is relatively recent phenomenon. In 1982, European Union issued the 6th Directive in order to coordinate national laws and make spin-off transactions economically efficient. And since that time tax-free spin-off gain more popularity among European Union countries. Krishnaswami & Subramaniam (1999) admit that corporate spin-off accompamied by 8K and 10K statements, where can be found detailed information about profit and costs. The figure 1.1 and 1.2 demonstrate changes in ownership structure of shareholders of the parent company before and after corporate spin-off.

Figure 1.1 - Ownership structure of the parent company's shareholders before spin-off creation



Source: Kovacs (2008), pp.15

Figure 1.2 – Ownership structure of the parent company's shareholders after spin-off

Source: Kovacs (2008), pp.15

Corporate spin-off can be introduced as a new business start-up that develops and markets services or products based on possessive technologies or skills. (Veld & Veld-Merkoulova, 2008). Tübke (2004) explains corporate spin-off as a division of existing company into one parent company and two or more independent spin-offs. He also admits that spin-off units often appears to be a basement for the operation on a new economic activity. In addition, another very important thing that author mentions is that in most cases formal and informal relationships between parent and spin-off continues after their separation.

As Canina & Klein (1998) mention corporate spin-off introduces a form of corporate restructuring, where appears distribution of all or basically all property interest of the parent company's subsidiary to the parent company shareholders. Existing shareholders have the same percentage of ownership in the spin-off and in the parent company. As the result of spin-off creation parent company becomes smaller and new separate legal entity appears. Authors admit that spin-off as an independent entity can create its own policies and strategies that can be different from parent company.

As Cumming & Mallie (1999), Chemmanur & Paeglis (2000), Veld & Veld-Merkoulova (2008) mention that spin off introduce process of subsidiary shares distribution pro-rata to the shareholders of the parent company. As result of this process, shareholders of the parent company obtain shares in both: parent company and spin-off. Moreover, what is important that Veld & Veld-Merkoulova (2008) underline is that this process accompanies without cash transaction. Chemmanur & Paeglis (2000) also draw attention to the fact that after seperation from the parent company spin-off turns into an independent company with a separate board of directors and management team. Cumming & Mallie (1999) admit that there was not noticed neither gain no loss while subsidiary's stock was allocated to company's shareholders through spin-off creation. Authors mention that such allocations generally handled as nontaxable dividends.

Slovin et.al (1995) indicate corporate spin-off like a kind of special mechanisms of restructuring activity with the help of which parent company can divest an operating unit. Authors underline that spin-off introduce pro rata stock dividends, that transfer parent company subsidiary ownership to its shareholders without the use of external financing. They also admit that such created spin-off introduces administratively and financially independent entity of the parent.

Daley et al. (1997) explains that spin-off happens in the case when parent company creates the subsidiary with the aim to contain there part of its assets and then decides to hand out its subsidiary shares to its shareholders by the transformation of its subsidiary into the independent company.

Daines & Klausner (2004) mention that process of spin-off consist of two steps, which are: sale or carve-out of minority of parent company interest to the public and distribution of the rest interest to the shareholders of the parent company. Authors admit that generally parent companies prefer to complete both steps on the first stage.

Rosenfeld (1984) admits that spin-off appears after the distribution of all parent company common stock to in its subsidiary to its shareholders with the creation of separate publicly traded company. Rosenfeld (1984) also mentions that this process introduces a tax-free exchange. Another author Wirschke (2011) agrees with the definition of Rosenfeld (1984) and opposes spin-off process to sell-off, where divested assets generally sold and integrated to the third party organization. He notes that spin-off is paid as a dividend to existing company's shareholders and this transaction usually tax-free.

As it can be seen from the statements, above all authors bear the same idea meaning that corporate spin-off happens when subsidiary is separated from the parent company with the aim of creation new independently running entity. Rosenfeld (1984), Cumming & Mallie (1999), Wirschke (2011) bring attention to the fact that spin-off allocation of subsidiary stock by parent company to its shareholders is generally tax-free. Slovin et al. (1995), Cumming & Mallie (1999), Chemmanur & Paeglis (2000), Veld & Veld-Merkoulova (2008) admit that process of subsidiary (future spin-off) shares distribution bears pro-rata character towards shareholders of the parent company.

1.2.2 Types of corporate spin-off

Based on Van de Velde et al. (2007) typology of corporate spin-offs, three types of corporate spin-offs can be distinguish, which are: restructuring-driven spin-offs, assisted spin-offs and entrepreneurial spin-offs. Authors indicate that these kinds of spin-off differ from each other by nature of knowledge transfer, detection of opportunity and its fulfillment, by performance. Parhankangas & Arenius (2003) in their work also identified three groups of corporate spin-offs, which are: spin-offs, that develop new technologies, spin-offs, that serves new markets and restructuring spin-offs. Tubke (2004) and Moncada et al. (1999) define just two type of corporate spin-offs, which are: entrepreneurial and restructuring-driven. As Van de Velde et al. (2007), Parhankangas & Arenius (2003) also admit that types of corporate spin-off have difference in intensity of resource and knowledge transfer form parent to spin-off, in time, that necessary for separation from the parent company, direction of future activities. Goolsbee & Maydew (2002) define one more type of corporate spin-off, which is real estate investment trust (REIT). Below introduced table 1.1 with the main reasons of different types of spin-off creation.

Table 1.1 - The main reasons of different types of spin-off creation

Name of spin-off	**Reasons of creation**	**Initiator**
Assisted (Technology) spin-off	Development of new technologies, pure innovation, that are not core to the main strategic goals of the parent; Possibility to launch new company based on new technologies, that will develop and commercialize research results;	Parent company
Entrepreneurial spin-off	Recognition of new market opportunities; Desire of employees to be self-employed; Rejection of the employees ideas by the management of parent company; Opportunity for employees to use on practice knowledge gained through work within parent company; Investment restriction of the parent company;	Employee
Market spin-off	Follows the idea of new niche markets creation Delivery of products to the new technology markets	Parent company
Restructuring-driven spin-off	Divestment of old core business that does not match company base strategy anymore; Divestment of low profit business; Threat of takeover from competitors;	Parent Company
REIT spin-off	Unlock the value of company's real estate in a tax-efficient manner; Real estate requires too much management attention.	Parent company

Source: Compiled from Becker & Gassmann (2006); Compiled from Klepper & Sleeper (2005); Goolsbee & Maydew (2002); Linne (n.d.); Tubke (2004); Van de Velde et al. (2007); Wachtell, Lipton, Rosen & Katz, 2014.

Assisted spin-offs usually occur in two main cases: when parent company tends to develop new technologies, that are not core to its strategic goals and when parent company want to launch new company based on new technologies, that will develop and commercialize research results. (Becker & Gassmann, 2006). Assisted spin-offs generally have formal relations with their parent, which include parent company support during spin-off creation, technology and knowledge transfer, license agreement, equity participation of the parent company in spin-off. (Van de Velde et al., 2007).

Entrepreneurial spin-off created by individual employees, which main aim is implementation of their business ideas that could not find support from the parent company. Generally, one of the main reasons of such type of spin-off creation is to take advantage of unused potential based on experience gained from the parent company. (Tubke, 2004). Among the other reasons that make employees leave parent company and start their own business are: recognition of new market opportunities, rejection of the employee idea development within the parent company, desire of employees to be independent entrepreneurs, investment restrictions of the parent company. Acquisitions and mergers of the parent companies also influence employee's decision of entrepreneurial spin-off creation due to the employee's identity problems inside recently formed organizations with new culture. Relations between entrepreneurial spin-off and the parent can be formal or informal, which depends on the kind of support that spin-off get from the parent. In most cases informal transfer of knowledge between parent company and spin-off happens as generally entrepreneurial spin-offs not supported by the parent. (Van de Velde et al., 2007; Parhankangas & Arenius, 2003).

Market spin-off introduces spin-off, which develops products based on already existing technology within the parent company. The main aim of market spin-off is to deliver products to the new technology markets, which close to the parent company. Such type of corporate spin-off generally have internal R&D units inside the parent company. (Linne, n.d.).

Restructuring-driven spin-off occurs when company decides to separate its old core business, which is not match base strategy of the parent company anymore. Among the other reasons of restructuring-driven spin-off creation are: the decision of the parent company to escape takeover by the competitor, decision to divest low profit activities of the parent company, desire of the parent company to concentrate on its core activities. (Van de Velde et al., 2007).

Real estate investment trust spin-off (REIT) introduces form of corporate restructuring, which split parent company into operating company and separate real estate investment trust. Real estate ownership gives parent company control over its assets, which requires from parent company significant management attention. The main target of creation of REIT spin-off is to unlock the value of company's real estate in a tax-efficient manner. (Wachtell, Lipton, Rosen & Katz, 2014). Till the time investment trust pays back at least 90 percent of income to its shareholders, it is considered tax-free. (Canina & Klein, 1998).

1.2.3 Relations of spin-off with parent company after separation

According to Tubke (2004) spin-off has survival rate higher than any other form of corporate divestiture. That can be explained by ongoing connection between spin-off and parent company and by possibility for spin-off to get access to the certain types of the parent company's resources and knowledge. Bernardt et al. (2002) indicates such attributes of spin-off as use of specific knowledge and competence that was built up within the parent company, financial and other support. Through the transfer of resources and knowledge parent company implements founding of spin-offs. Wennberg et al. (n. d.) admit that funding of spin-off with skills, knowledge and experience, have an important impact on spin-off future development.

Parhankangas and Arenius (2003) mention that parent-spin-off relationships generally reflected in the spin-off's equity share holding by parent company.

Bernardt et al. (2002) state, that parent company's reputation plays an important role for spin-off success. Possibility to have support from the parent company, which expressed in access to customers, suppliers, financial resources in a positive way influence spin-off development. As authors mention spin-off generally does not carry the same activities as the parent. In most cases spin-off takes new activities, unrelated to the parent. On the base of made research Bernardt et al. (2002) found next groups of relations of spin-off with the parent: direct competitors, no relationship, spin-off supplier of the parent, client of the parent company and collaborator.

As Fryges & Wright (2014) state, spin-off can take advantage from relationships with parent in different ways. For example, start to develop and implement idea within the parent company and then in spin-off continue business on the new level. Form the other side, Parhankangas & Arenius (2003) (cit in Elfring and Baven, 1996) indicate that continues relations of spin-off with parent can negatively influence its development. The reasons for this can be spin-off unwillingness to seek for new customers and making investments in new products while having parent company as a secure source of business.

1.2.4 Difference between corporate spin-off and other types of corporate divestitures

According to Slovin et al. (1995) corporate divestitures involves several ways by which parent company can divest its subsidiary or division, which are: spin-offs, equity carve-outs and sell-offs. Authors explain that in such forms of corporate divestitures parent company either reduces its property (equity carve out) or exclude its participation (spin-off and asset sell-off) from the business activities of former subsidiary and increase focus on its core activities. Canina & Klein (1998) also mention two other forms of corporate divestitures such as split-offs and split-ups. Gaughan (2002) in his book includes all five types of divestitures that Slovin et al. (1995) and Canina & Klein (1998) mentioned, such as sell-offs, equity carve-outs, spin-offs, spilt-offs and split-ups.

Daley et al. (1997) defines that in compare with others forms of corporate divestitures spin-off does not generate cash earnings for the parent company. After spin-off creation, two publicly traded companies appear, that have their own management staff and board of directors. Management teams of parent company and spin-off can separately take their decisions in the scope, where their business particularly operate. (Canina & Klein, 1998). Daley et al. (1997) point out the spin-offs as a unique type of divestitures because it allows researchers to explore post-spinoff performance of retained and divested assets of the company and compare them with pre-spinoff performance.

Spin-ff provides opportunity for parent and spin-off companies to grow in a way that is most suitable for particular industry, give chance for managers to develop their own corporate policies and strategies and to expect increase in obtainment and decrease in cost of raising capital. As after separation financial and operational progress of the companies become more evident, spin-off stimulate company's executives to demonstrate growth and prosperity of their companies. (Canina & Klein, 1998)

Based on the work of Slovin et al. (1995) and Puteh (2004) were taken for comparative analysis with spin-off 4 alternative types of divestitures, which are: split-up, split-off, sell-off and equity carve-out. Comparison of only four types of divestitures with spin-off was chosen, because sell-off is considered to be the most known and frequent form of divestiture (Kovacs, 2008); split-off and split-up as spin-off are the forms of divestitures that are free-off tax under legislation in majority of countries; spin-off and split-off can serve as a first step for creation of carve-out. Below introduced table 1.2 with reasons of four alternative forms of divestitures creation.

Table 1.2 - Reasons for creation alternative to spin-off types of divestitures

Name of the type of divestiture	**Reasons of creation**
Split-up	Desire to sell unrelated activities; Goverment decrees;
Split-off	Concentration on the core business; Resolution of conflicts between shareholders
Sell-offs	Desire to sell unprofitable ventures; Desire to sell unrelated activities; Desire to obtain cash for the company's business activities.
Carve-out	Make easier process of split-off creation; Possibility to generate capital; Possibility to improve operating performance; Possibility to enhance parent company value on the stock market

Source: Compiled from Eckbo & Thorburn (2013); Kovacs (2008); Rosenfeld (1984).

1. Split-up. Introduce such a form of corporate restructuring where the whole parent company is separated into a two or more of spin-off companies, the stock of which then distributed on non-pro rata basis to the parent company shareholders. The main idea here is that after such separation parent company does not exist anymore. In split-up shareholders, exchange shares of the parent company for the shares of one or more newly formed spun off units. (Canina & Klein, 1998; Gaughan, 2002).

2. Split-off. Introduce such form of corporate divestiture, where some shareholders of the parent company are provided with shares of the parent company's subsidiary or division, which is split off in exchange for their shares in the parent company. (Canina & Klein, 1998). As it can be seen from the split-off definition it similar to spin-off, where parent company's shareholders own shares in both: split-off subsidiary or division and parent

company. One of the distinct characteristics of split-off and spin-off is non-pro rata distribution of shares between shareholders in parent company and split-off after the procedure of split-off creation. This means that some shareholders may own shares in both companies, some may have shares only in parent company and some only in split-off. Generally split-off occurred like a next step after carve-out creation or due to the aim to make parent company's subsidiary public. (Von Roger Rüdisüli, 2005)

3. Sell-offs. According to the Rosenfeld (1984), the definition of sell-off can be introduced as a process in which divested asset is bought and became a part of another company. If the divested asset is a division, parent company sells its assets, if the divested asset is subsidiary; parent company sells its stock. (Prezas & Simonyan, 2012) Slovin et al. (1995) and Kovacs (2008) introduce sell-off as a process of selling assets of the parent company subsidiary, division or product line to the third party by a private sale bargaining or through the public sale offering of shares on the stock exchange. Prezas & Simonyan (2012) mention that sell-offs are taxable transactions. In sell-offs parent company usually receive cash or (and) securities for the divested assets. According to Rosenfeld (1984) this securities can be further converted in cash. As Rosenfeld (1984) mentions among the reasons of sell-offs can be indicated three main: desire to sell unprofitable ventures, desire to narrow the scale of the company's operations by making a divestiture of unrelated activities, desire to sell off assets in order to obtain cash for the company's activities. According to Maydew et al. (1999) possible to admit three advantages of sell-off, which are: improved liquidity for the parent firm, financial reporting benefits and larger gains in compare with spin-off. Kovacs (2008) proposed that's probably because sell-off is the most popular form of divestiture, some authors such as Eckbo & Thorburn (2013) and in their works use definitions of 'sell-offs' and 'divestiture' like synonyms or equivalents. But author put attention on the fact that sell-off it is just one kind of corporate divestitures.

4. Equity carve-out. According to Cornell (1998) this form of company divestiture happens when parent company sells shares of its subsidiary (usually less than 20 %) for cash, that it gained through initial public offering. Later parent company directs the remaining percentage of shares to existing shareholders. Main difference between corporate spin-off and equity carve-out is in the possibility of equity carve-out to generate capital after its subsidiary shares sold through initial public offering. Another difference

is that parent company maintains majority interest in its subsidiary after carve-out (Von Roger Rüdisüli, 2005). Powers (2011) admits that carve-out is taxable transaction and parent company is obliged to pay taxes on the difference between market and book value of the offered shares. Gaughan (2002) mentions that equity carve-out introduces a kind of divestiture, which involves sale of a subsidiary equity interest to the third parties. Author admits that new legal entity may be created with different shareholders base than parent company. Equity carve-out generally has different management team from parent and operates as a separate company. In equity carve-out parent company generally holds controlling interest in its subsidiary. (Power, 2011; Slovin et al., 1995). At the same time Canina & Klein (1998) argues that, the sale of the equity not always leave the parent company in the control of subsidiary. The main reasons of carve-out creation are lack of fit of the subsidiary or division to the strategic goals of the parent company, necessity to improve operating performance (Eckbo & Thorburn, 2013). Kovacs (2008) admits that companies generally make carve-out in order to make after more easily another type of divestiture, generally split-off. One of the reasons of such kind sequence of actions is the possibility with the help of carve-out through IPO to enhance value of the parent company on the stock market and establish suitable exchange ratio afterwards. Table 1.3 introduces similarities and difference of alternative types of divestitures with spin-off.

Table 1.3 – Similarities and difference between spin-off and other types of divestitures

Form of corporate restructuring	**Similarities with spin-off**	**Differences with spin-off**
Split-up	Non-taxable transaction; Shareholders have interest in both companies that are created as a result of spin-off	Liquidation of the parent company; Non-pro rata distribution of newly formed companies' assets to the parent company shareholders
Split-off	Does not generate any new cash to the parent company; Non-taxable transaction	Non-pro rata distribution of subsidiary stock by the parent company to its shareholders in exchange for shareholders stock in the parent
Sell-offs	Sell-off of unprofitable ventures; Divestiture of unrelated activities	Taxable transaction; Parent company usually receive cash or securities for the divested assets.
Carve-out	Separate economic and legal entity with its own management and board of directors.	Taxable transaction; Motivated by the company's desire to generate immediate cash; Parent company maintains majority interest in subsidiary after restructuring (partial separation from the parent); Carve-out generally introduce intermediate step, which lead to the next divestitures types

Source: Compiled from Eckbo & Thorburn (2013); Prezas & Simonyan (2012); Rosenfeld (1984) von Roger Rüdisüli (2005).

1.3 Driving forces and challenges of corporate spin-off creation

1.3.1 Drivers of corporate spin-off creation

Drivers of spin-off creation are strongly vary in dependence of situation. As the main aim of financial management is to maximize the owner wealth, the company should not launch a spin-off if it will not bring benefit to company's shareholders. (Rosenfeld, 1984). Ahn & Walker (2007) mention that effective corporate governance of the company, more precisely ownership and board structure, make positive influence on the decision of spin-off uprising. Companies also are more likely to create spin-off if high percentage of their ownership owned by outside board members. Schipper & Smith (1983), Hite &Owers (1983) and Miles & Rosenfeld (1983) document that spin-offs enhance parent company's value and attribute this wealth increase to gain economic efficiency. Based on the studied literature of corporate spin-off driving forces, it is possible to admit the most popular ones.

Corporate focus increase and risk minimization. Companies may have business units not connected with the parent company core business or its strategy. (Towers Watson, 2011). In many cases, parent company and its subsidiary or division run totally different, contradictory business lines and serve different markets. Every division of the parent company or its subsidiary can have different financial, operating and investment characteristics, which result in different levels of risks that companies have. Creation of spin-off helps to concentrate on the core activities of each separate company, helps easier identify and resolve risks, which directly apply to the particular business. Spin-off provides opportunity for both former subsidiary and parent of growth in a way that is most suitable for their industry. (Canina & Klein, 1998).

Shareholder value maximization. The primary goal of the most parent company's mangers decision of spin-off creation is maximization of shareholder wealth by paying dividends, which lead to the increase in market value or stock price of the company. (MacMinn & Brockett, 1993; Krishnaswami & Subramaniam, 1999). According to Ahn & Walker (2007) spin-off introduces corporate action that increase company's value, by decreasing the size and the scope of the company's activities. Munteanu et al. (2012) based on the works of Jensen (2001) and Friedman & Miles (2002) argued that managers should not concentrate only on shareholder value maximization but should also take into account interests of stakeholders groups.

Clear investment opportunity. Spin-off helps to create clear and objective investment potentials. Particular types of active investors are interested in more “pure play” companies, because such kind of companies in compare with diversified ones did not make them to take a risk in industries they are not willing to invest. (Krishnaswami & Subramaniam, 1999; Wachtell, Lipton, Rosen & Katz, 2014).

Reduction of information asymmetry. According to Boreiko & Murgia (2013) the main idea of asymmetric information hypothesis is that multidivisional companies are less clear and generally underestimated. While breaking up a big company on small ones could help to reduce information asymmetry and improve the quality of information about each company on the market and therefore attract investors. Krishnaswami & Subramaniam (1999) define that companies with comparatively high levels of information asymmetry have more probabilities to create spin-off, if compare to the other industry competitors, which level of information asymmetry rather low. Authors claim that announcement returns for companies with higher level of information asymmetry are bigger and spin-off helps to decrease information gap afterwards.

Preparation for the “competitive future”. Restructure in response to such external forces as globalization, deregulation, and strategic innovation by global competitors. (Markides & Singh, 1997). Authors suggest that restructuring activities can occur not only because of subsidiary or division poor performance but also because of parent company possibility to prepare them in such way for the future changes in business environment.

Effective equity-based compensation. Spin-off will help to raise efficiency of equity-based compensation by connecting the value of the equity reward given to officers, directors, employees and productivity of business, for which those persons provide services. (Wachtell, Lipton, Rosen & Katz, 2014).

Defense from takeover. Daines & Klausner (2004) state that spin-offs have more protection from hostile takeovers than their parent companies. Parent company in this case use spin-off method in order to increase takeover protection of spun off business. At the same time parent company becomes less attractive as a takeover aim, not eliminating value of existing shareholders, as they will obtain shares of spin-off. (Sullivan & Cromwell, 2010).

Equity as an acquisition currency. By establishing separately publicly traded stock, spin-off will give an opportunity to increase divested business ability to make an impact on acquisitions by using its stock as compensation. (Wachtell, Lipton, Rosen & Katz, 2014).

Poor business performance of subsidiary or division. Spin-off in some way bonds management of the parent company against subsides to unprofitable or poorly performing units. For example, in case, when division or subsidiary could not manage to pay rate of return, that outreach hurdle rate of the parent company. Hurdle rate introduces minimum return threshold that parent company will utilize to estimate productivity of all its parts. (Canina & Klein, 1998).

Appropriate for business capital structure. As business of parent company and its subsidiary due to particular reasons may need different capital requirements, with the creation of spin-off parent company can follow capital structure that is most suitable for its strategy and business implementation**.** (Wachtell, Lipton, Rosen & Katz, 2014).

Tax efficient. The key advantage of spin-off creation that it can be structured as a tax-free distribution. (Sullivan & Cromwell, 2010). Tax factor appeared tp be one of the main driving forces that force distribution of shares to shareholders through corporate spin-off. (Miles & Woolridge, 1999).

Legal and regulatory issues. In case when laws and regulations can make companies to create spin-off involuntary because of complaints put to state agencies. However sometimes parent companies spin-off their subsidiaries in order to come over legal barriers that prevent company form fulfilling their objectives. (Canina & Klein, 1998).

Method of conflict resolution. Exclusion of conflicts between business of parent company and its subsidiary or division, giving them opportunities to go separate ways. (Sullivan & Cromwell, 2010).

Cost reduction. Reduction of agency and overhead costs will help parent company and its spin-off to improve their operating performance. Due to the separation, spin-off does not exposed to the extraordinary costs, as it happens when subsidiary is affiliated with a parent company business. (Cumming and Mallie, 1999).

Debt reallocation. Instrument for the reallocation of a part of parent company debt, because parent company could use this debt for financing spin-off business or just by this step parent company want to obtain value from spin-off. (Cumming & Mallie, 1999; Puteh, 2004).

Allocation of liabilities other than debt. In some cases, liabilities need to be transferred from parent to spin-off, but in others, there is no need to transfer liabilities as they already bided in spin-off. Here is necessary to determine contingent liabilities, which are common for both business (parent and spin-off) and legacy liabilities, which can concerned just spin-off business. And generally such liabilities reallocations are fixed in separation and distribution agreement. (Wachtell, Lipton, Rosen & Katz, 2014).

Below introduced table 1.4 with drivers of spin-off creation and their literature sources.

Table 1.4 – Drivers of spin-off creation and their sources of literature

Authors	**Name of driver**
Ahn & Walker (2007); Krishnaswami & Subramaniam, 1999; Wachtell, Lipton, Rosen & Katz, 2014	Clear investment opportunity
Boreiko & Murgia, 2013; Canina & Klein, 1998; Towers Watson, 2011	Corporate focus increase and risk minimization
Boreiko & Murgia, 2013; Krishnaswami & Subramaniam, 1999;	Reduction of information asymmetry
Canina & Klein, 1998	Legal and regulatory issues; Poor business performance;
Cumming & Mallie, 1999	Cost reduction
Cumming & Mallie, 1999; Puteh, 2004	Debt reallocation
Daines & Klausner , 2004; Sullivan & Cromwell, 2010	Defense from takeover
Krishnaswami & Subramaniam, 1999; MacMinn & Brockett, 1993;	Shareholder value maximization
Markides & Singh, 1997	Preparation for the "competitive future".
Miles & Woolridge, 1999; Sullivan & Cromwell, 2010	Method of conflict resolution; Tax efficient.
Wachtell, Lipton, Rosen & Katz, 2014	Allocation of liabilities other than debt Appropriate for business capital structure; Effective equity-based compensation; Equity as an acquisition currency

Source: Own compilation

1.3.2 Tax avoidance as a 'hidden' driver of spin-off creation

Across the literature, it is possible to see that one of the popular drivers that motivates companies to create spin-off (except increase in shareholder return, takeover defense, attraction of investors and others) is tax avoidance. Krishnaswami & Subramaniam (1999) admit that sometimes companies decided to spin-off subsidiary or devision in order to escape from paying taxes on the income of their division or subsidiary. They underline that spin-off introduce a tax-free transaction for the parent company, which refers to it as a stock dividend and brings no taxable gain and no taxable loss. In other words, spin-off leads to the significant tax savings for both shareholders and the parent company. Prezas & Simonyan (2012) indicate high marginal tax rate as a motive for companies to create tax-free entity. The interest to the tax avoidance driver is not just random, but in compare with other drivers of spin-off creation, this driver can be considered as 'hidden factor'. Although tax avoidance is not considered legitimate reason of spin-off creation, but if in the real life it is, companies need to show strong motivation and persuasive arguments in order to create spin-off. This is due to the reason that tax is a compulsory contribution as is one major source of income to the governments. Different countries have different legislation for establishment of spin-off. The legislations are designed in a way to ensure that all companies pays tax. That's why it will be interesting to consider in this work spin-off legislation on example of USA, Germany and Switzerland. Legislation of spin-off these countries were taken because of possibility to get access to necessary data.

1.3.2.1 Tax-free spin-off creation in USA

Section 355 of the Internal Revenue Code regulates conditions of tax-free spin-off creation in USA. In case, company, which creates spin-off, does not follow the rules under 355 Section, parent company and its shareholders will be obliged to pay taxes and taxable gains that spin-off will generate. Based on the Section 355 of the Internal Revenue Code in work of Prezas & Simonyan (2012) were defined basic rules of USA tax-free spin-off creation:

1. Parent company should own at least 80% of asset before separation and have to give out at least 80 % of spin-off shares to its shareholders.
2. Both parent company and subsidiary should continue actively conduct their business, in which they were involved minimum 5 years before separation. During this 5 years business of the parent company should not be acquired in a taxable transaction.
3. Third, spin-off creation should have strong business purpose, for example, transformation of dividend income into capital gain at the shareholder level or transformation of appreciated property out of the joint-stock company. Spin-off can't be

considered as an instrument for tax avoidance or device for earnings and profits distribution.

4. After spin-off creation parent company's shareholders should obligatory have considerable amount of shares in both companies. It means that one or more shareholders that owned shares in the parent company before separation should be with at least 50 % of equity shares in the parent company and spin-off for the period of two years.

According to Suchan (2004), spin-off transactions under USA corporate law may need two-step approach, in case parent company does not have subsidiary. Then first step will include creation by the parent company new company and transfer to it at least one business in exchange for outstanding shares of this new company. Second step will include pro-rata distribution of the subsidiary's stock by the parent company to its shareholders by a way of dividends. If company already have subsidiary, the process of spin-off creation will start right form the second step.

1.3.2.2 Tax-free spin-off creation in Germany

German Transformation Act ("Umwandlungssteuergesetz") coordinates reorganization of entities under the German law. (Suchan, 2004). The main aim of the German Transformation Act is to make process of company's restructuring easier. (von Roger Rüdisüli, 2005). In German legislation, exist two types of spin-off creation, but according to the German tax law and its provision German Transformation Tax Act only spin-off type I can be created free of tax. As the subject of interest of this question is spin-off free of tax, spin-off type II will not be considered here.

Spin-off type I introduces one step transaction, in which occurs transfer of some part of parent company's assets to existing or newly created subsidiary in exchange for the distribution of the subsidiary's shares directly to the shareholders of the parent company. Spin-off type I also can be created in two steps: first transferring the assets and then pro-rata (symmetric) distribution of subsidiary's stock to the stockholders. However, tax consequences for one and two-step approach will be different. Under the German tax law in order for spin-off type I to be tax-free, spin-off need to obtain at least one operational unit and the parent company need to maintain minimum one operational unit. Under operational unit can be introduced self-contained part of the company with particular amount of independence. Interest in partnership involved in business and 100% of property in the joint-stock company considered as operational unit. In order spin-off transaction to be tax-free, it should be made exceptionally in exchange for the subsidiary stock. Spin-off type I will not be considered as tax-free if during three-year period before separation parent company acquired 100% ownership in the joint-stock company or increased its interest in partnership for tax purposes with the assets that don’t form operational unit.

After the separation of spin-off, parent company becomes free from legal liabilities, because it generally transfers all necessary rights, resources and liabilities to spin-off during the subsidiary stock distribution. Nevertheless, during the first five years of spin-off existence, parent company remains jointly liable for the transformation of liabilities to spin-off. (Suchan, 2004).

1.3.2.3 Tax-free spin-off creation in Switzerland

In Switzerland, Swiss Merger Act (“Fusionsgesetz”) regulates the formation of spin-offs since July 1, 2004. As in Germany, Switzerland process of spin-off transaction introduces one-step approach. The spin-off transaction occurs through transformation of part of the assets and liabilities of the parent company to its subsidiary in exchange for the stock of the subsidiary. (von Roger Rüdisüli , 2005).

1.3.3 Challenges of spin-off creation

According to the report Towers Watson (2011) in order to make spin-off a successful transaction, managers must take into account that they should create spin-off leading team with right people and processes. The process of preparation for spin-off takes quite a lot of time for planning, establishing priorities and making considerations about putting right things on the right places. It is admitted that right chosen leadership team is the guarantee of the future spin-off success.

Another important moment while speaking about spin-off challenges is preparation of spin-off employees for the future. It is very important to explain to employees what changes they are gonna to face in the new entity and how it will be possible to achieve. It is very important to have the right people on the right places.

One more challenge that spin-off sometimes comes across is incapability to retain and transmit talented employees in the spin-off from the parent company as they can feel insecure in the newly created entity, which gives an opportunity for competitors to follow and recruit them.

Strong human resource management plays an important role in the building new entity. As it controls implementation of operations, helps to build new team and prepare for the transaction very often with rather limited resources.

Possibility of being acquired by another company increase after subsidiary become a spin-off. Because after spin-off it becomes possible to acquire control of the division through the sock purchase. (Eckbo, 2010). Cusatis et al. (1993) proved by made research that two' pure play' companies such as parent and spin-off are tend to be more attractive to investors than combined company.

1.4 Corporate spin-off creation process, its resource and knowledge base

1.4.1 Description of corporate spin-off process

There is no one universal way of spin-off creation. Across different countries and even companies, the process of spin-off creation will vary and have different characteristics. In this question will be introduced process of corporate spin-off creation according to Gaughan (2002). Author distinguishes 5 steps of spin-off creation process.

<u>"Spin-off decision"</u>: on this stage arises question about necessity of particularly spin-off creation. This stage is accompanied by the financial analysis of the plan for the future spin-off creation.

<u>'Formulation of reorganization plan':</u> on this step between parent company and subsidiary should be arranged agreement, where will be characterized ongoing relationships of the subsidiary with the parent company. In this agreement can appear questions about subsidiary's assets and liabilities arrangement, employee's retention, pension funding and others.

<u>"Shareholders' approval of reorganization plan":</u> spun off of a subsidiary or division from the parent company can't be made without agreement of shareholders. In order, shareholders approve reorganization plan, it necessary to be delivered for the consideration at the shareholders' meeting.

"Shares registration": At the forth step appears registration of shares that were issued in spin-off under Securities and Exchange Commission (SEC).

"The deal completion": is final and means subsidiary or division separation form the parent company after successful completion of all previous steps.

1.4.2 Recourse base of corporate spin-off

Corporate spin-offs have one very important advantage in compare with other types of divestitures. According to the spin-off concept, parent company should transfer some of it resources to spin-off at least during the first year of spin-off creation in order to help spin-off become strong independent public company. That's why it is relevant to indicate resources that parent company can transfer to spin-off.

It is well known, that resources that company owns are used in order to build a competitive advantage and to enhance company's value on the market. (Curado, 2006). Resources that companies have can be separated for tangible and intangible assets. Tangible assets include indicators that can be found in company's balance sheet: financial investments (in company shares, in equity positions in other companies), raised financial capital (debt from secured bank loans, equity from the editions of shares or bonds), buildings and equipment, land, cash earned form operations, codified knowledge. Intangible assets introduce assets that are not generally included in balance sheet of the company: organization structure, human capital, company's reputation, innovation capabilities, customer service reputation, databases and information system, culture of the company, human resource management policies, trademarks, copyrights, patents, tacit knowledge (Koster , 2004; Galbreath & Galvin, 2008). Such intangible assets as human capital and company's culture can be transferred from parent company to spin-off with the help of former parent company's employees, through their relocation. (Holloman & Klieb, 2013).

Barney (1991) in his work mention existence of 3 groups of resources in relation to corporate spin-off: physical, organizational and human. Holloman & Klieb (2013) instead of three groups of resources mention 4, adding to the 3 previous groups financial resources. While in the work of Bernardt et al. (2002) based on the resource dependence theory found existence of five categories of resources, which are: financial, human, social, physical and organizational. In the category of financial resources included capital from entrepreneurs, equity of investors and debtors. Human resources involve experience, intelligence, training and judgment of every of the company's individual employee. (Holloman & Klieb, 2013; Barney, 1991). As Bernardt et al. (2002) mentioned in human capital are include employees that already experienced in relevant market or have knowledge about the technology or products. Another group of resource is social capital, which include network of clients, reputation. Network of clients open access to potential providers of clients, fiancé and suppliers. Good reputation of the parent company can a be a bonus to just appeared spin-off, while creating spin-off more faith for external relationships (Bernardt et al., 2002). Physical resources include company's technology and equipment, access to raw materials, company's geographic location. Informal relations between the groups within company, formal and informal, company's routine and systems (planning, controlling, and coordinating) introduce organizational resources. (Holloman & Klieb, 2013; Barney, 1991). Organizational of resources generally not always available for spin-off. (Bernardt et al., 2002).

1.4.3 Knowledge base of corporate spin offs

One of the main characteristic of corporate spin-off process is knowledge transfer from the parent company to spin-off. (Parhankangas & Arenius, 2003; Sapienza et al., 2004; Tubke (2004). That's why it is relevant to define what types of knowledge parent company can transfer to spin-off. According to Conner & Prahalad (1996), knowledge appears to be the basic source of company's competitive advantage. Von Krogh et.al (2000) define conception of knowledge as highly significant, promising and affirmative.

Polanyi (1962) defined human knowledge into two categories, which are: explicit and tacit. Author introduced explicit knowledge as codified, formal and structured and tacit knowledge as uncodified, unstructured and informal. Cook & Brown (2005) determine explicit knowledge as knowledge that can be formalized and tacit knowledge as knowledge that connected with skills and "know-how".

According to Van de Velde (2007) between parent company and spin-off can occur both formal (license agreements, patents) and informal knowledge transfers. Goethner (n.d) admits that besides formal and informal knowledge transfer exist the third one, combinatory, that involves formal and informal knowledge transfer at the same time.

Teece (1998) admits that knowledge can be both negative and positive. Author underlines that knowledge about failures should be the same importance as knowledge about success. Knowledge of failures can help companies to make their resource allocation more effective in the future. Managers' unwillingness to discuss projects that failed can lead to anti-knowledge sharing culture. (Lee et al., 2006)

Sapienza et al. (2004) investigated relationship between parent company and spin-off by studying the impact of knowledge overlap on the spin-off growth. Authors proposed the idea that the more effective spin-off studying from the parent the quicker will be knowledge collection in the spin-off, which will stimulate quicker spin-off growth. The speed of the corporate spin-off studying is affected by the parent company and spin-off knowledge relatedness. Related knowledge increases spin-off ability correctly estimate the value of external knowledge, eliminate unrelated knowledge and concentrate attention only on valuable sources. In the situation when unrelated knowledge reduces and related knowledge enlargements, the possibility of new knowledge creation decreases. Sapienza et al. (2004) distinguish minimal and extreme knowledge relatedness. Minimal relatedness means existence of no or little overlap between the parent company and spin-off knowledge bases. Extreme relatedness introduces very high overlap between knowledge bases. When very high overlap between spin-off and parent company occurs, knowledge base of the corporate spin-off gets excessive and makes harder for spin-off to build compounds grounded on the parent company external knowledge. In case when overlap between the parent company and spin-off knowledge bases is complete, knowledge relatedness in the relationship between companies will be equal to zero. According to the idea that too much or too little knowledge can create barriers for the spin-off studying, authors suggested that intermediate level of knowledge relatedness would be more suitable.

Sapienza et al. (2004) investigated three types of knowledge relatedness between parent company and its spin-off, which include production, technological, and marketing knowledge and their influence on spin-off growth. Authors admit based on the results of their study, that particularly medium levels of technology and production knowledge relatedness are the ones that produced one of the highest levels of corporate spin-off growth. Tubke (2004) based on the previous researches also defines four another types of knowledge transfer, which are innovative, managerial, leadership and technical.

The most general view about different types of knowledge transfer introduced in the table 1.5 below.

Table 1.5 – Description of spin-off types of knowledge transfer

Type of knowledge transfer	Description
Production knowledge	Access to the production knowledge of the parent company helps spin-off to implement production systems and techniques, adopt them to customer needs and increase sales by reaching new customer groups.
Technological knowledge	Access to the technological knowledge of the parent company allowed spin-off to obtain more entire technological knowledge base. Include skills that is necessary for operating with technologies. For example, knowledge of how to work with particular software programs.
Marketing knowledge	Access to the marketing knowledge of the parent company allows spin-off to make better focus on particular groups of customers, channels of distribution, gives opportunity to build more efficient marketing strategies.
Innovative knowledge	Innovative knowledge transfer (experience in undertaking new projects and developing new products, participation in technologically advanced projects) gives spin-off opportunity to commercialize skills and experience gained from the parent company.
Managerial knowledge	Managerial knowledge (administrative, organizational and accounting competences, marketing experience, experience in evaluation advantages and disadvantages of new projects) gained form the parent company allows spin-off more efficiently make business decisions.
Leadership knowledge	Leadership knowledge obtained from the parent company helps spin-off better coordinate, motivate subordinates, better plan, and delegate their duties while accomplishing organizational goals.
Technical knowledge	Technical knowledge brings understanding of how to do things.

Source: Compiled from Klepper & Sleeper (2005); Sapienza et al. (2004); Tubke (2004); Van de Velde (2007).

1.5 Evaluation of spin-off performance

1.5.1 Approaches for evaluation performance of the corporate spin-off

Performance evaluation is considered the key factor for the company's success. In today's competitive world company's need to have solid financial and non-financial structure, efficient management and high quality of product and services. (Wen, 2010). Across the literature, different authors analyzed performance in deferent ways. Two questions are defined that necessary to be answered in performance analysis. The first one is 'what will be measured', where necessary to define what particular performance measures will be used in definite cases in dependence on interest of research. The second question ‘how it will be measured’, where it important to find out what kind of data will be measured: tangible or intangible. (White, 1996).

Research that was made by Al-Kassar & Soileau (2014) shows importance of analyzing both financial and non-financial factors while evaluating company’s performance. Financial performance measures important because they used to be indicators for current and future financial performance. (Zurieker et al., 2011). Georgescu et al. (2010) also admit that financial indicators”look towards the past”, their main aim is to find the reasons of the company’s problems. Non-financial indicators ”look towards the future”, allowing managers of the company react quaicly and create important changs in the business environment. Al-Kassar & Soileau (2014) explain that financial and non-financial factors complement each other and without analysis of both of these factors, process of performance evaluation is incomplete and does not reflect the real image of the process. Since this study aimed to research changes in spin-off performance, some general approaches of performance evaluation will be presented.

Wen (2010) based on results of previous research of performance evaluation introduced own model of performance analysis, which involves analysis of financial and non-financial factors. Author separated financial factors for four groups, which are:

1. Liquidity/debt paying ability that measures company’s ability to arrange it short-term debt obligations. That means to test company’s ability to pay it shot-term liabilities, when the time comes.
2. Financial structure/stability measures ability to pay total current liabilities or long-term debt.
3. Activity /efficiency ability measures company’s ability of efficient resource use.
4. Profitability measures ability of the company to generate profit.

Among non-financial factors, that Wen (2010) chose for analysis are: competition performance, marketability of technology, manufacturing capability, supply-chain relationship, innovation capability. (Table1.6).

Table 1.6 - Non-financial factors of performance analysis and their indices

Non-financial factors of performance analysis	**Indices of factors**
Marketability of technology	Product competitiveness
Competition performance	Market share
Manufacturing capability	Productivity Product quality level
Supply-chain relationship	Downstream tactical alliances Upstream materials and supplies
Innovation capability	Ability to obtain critical technology Capability to improve manufacturing processes R&D expenditure ratio

Source: Compiled from Wein (2010)

In order to estimate financial performance Tehrani et al. (2012) as Wen (2010) also estimated performance on 4 groups of factors, which subdivided for input variables affecting performance (liquidity ratio, activity ratio, leverage ratio) and output variables (profitability ratio). The subdivision of each of the factors for indices, analyzed in the works of Wen (2010) and Tehrani et al. (2012) is introduced in the table below 1.7.

Table 1.7 - Financial factors for performance analysis by Wen,2010 and Tehrani,2012

Name of the financial factor groups	**Indices analyzed by Tehrani (2012)**	**Indices analyzed by Wen (2010)**
Liquidity Ratio Wen (2010) Liquidity/debt paying ability (Tehrani et al., 2012)	Current ratio; Quick ratio; Working capital	Cash ratio; Current ratio; Quick ratio; Working capital
Activity Ratio (Wen, 2010) Activity /efficiency ability (Tehrani et al., 2012)	Accounts receivable turnover ratio; Average collection period ratio; Inventory turnover ratio; Total asset turnover ratio	Accounts receivable turnover ratio; Average collection period ratio; Fixed asset turnover ratio; Inventory turnover ratio; Total asset turnover ratio
Leverage ratio Wen (2010) Financial structure/stability ability (Tehrani et al. , 2012)	Debt ratio; Equity ratio; Interest coverage ratio	Debt ratio; Debt-to-equity ratio; Interest coverage ratio; Permanent capital to fixed assets
Profitability ratio Wen (2010) Profitability (Tehrani et al., 2012)	Operating profit to sales ratio; Return on assets (ROA); Return on current assets (ROCA); Return on equity (ROE)	Gross profit margin ratio; Net profit margin ratio; Return on assets (ROA); Return on shareholders' equity ratio

Source: Compiled from Wen (2010) and Tehrani et al. (2012)

In the work of Bernardt et al. (2002) in order to evaluate academic spin-off performance were used such indicators as employment growth, sales growth and profit growth. According to Bigliardi et al. (cit. in Egeln et al., 2003) effective measures of spin-off success include growth in sales, employment growth, and credit rating. Ensley & Hmieleski (2005) while analyzing performance of university spin-offs and independent start-ups used net cash flows and growth revenue.

Huynh & Patton (n. d.) in their work while analyzing performance of university spin-offs used to estimate financial, operational and marketing performance indicators. Where financial performance was measured by company's growth in sales, employees number, revenue and net profit margin. Operational performance was measured by evaluation of innovation process, adaptation to new technology and product (service) innovation. And under market performance were taken for analysis quality and variety of products and services and customer factors.

CHAPTER II: METHODOLOGY

This chapter describes and explains chosen methods of research, the process of data collection and data analysis.

2.1. Research objective

The main purpose of this work is to study and analyze influence of parent company's activities on spin-off performance**.** Research include information about existing types of corporate spin-offs, about reasons and challenges of spin-off creation, about post-spin-off relations with the parent and types of spin-off, about resources and knowledge base of corporate spin-off and about approaches for corporate spin-off performance evaluation. The focus of this research is to find out, what are the reasons of spin-off creation, what resources and knowledge parent company transfer to spin-off, in which way parent company transferred (transferring) resources and knowledge to spin-off and how transformation of resources and knowledge influence performance of spin-off.

2.2 Research design

Literature review and conceptual framework were studied in order to answer research questions. Empirical literature was studied in order to see if some off research questions was answered somewhere. Analysis of open-ended questionnaires and performance evaluation with the use of financial ratios was made**.**

In this work mixed method of research conducting is used, approach that include both qualitative and quantitative methods of data analysis. Integration of qualitative and quantitative methods within the same study can help to complement each other. According to Greene and Caracelli (2003) use of mix method helps to make results of investigation more reliable and helps to create more accurate conclusions.

For finding answers on research questions were used exploratory qualitative research design in the form of open-ended questionnaires and descriptive quantitative research design for performance analysis of two spin-off companies.

As Robson (1993) mentions, exploratory studies are used to be available means of finding new insights, to ask questions and to assess phenomenon in new light. The focus of exploratory research in the beginning broad, but its became narrower as the research progresses. Descriptive research uses for expressing accurate profile of persons, events and situations. (Robson, 1993). Both methods, exploratory and descriptive were used for better investigation of influence of parent company on spin-off performance.

According to Brunt (1997) qualitative method helps to obtain rich in detail and intensity information from relatively few respondents rather than more limited information from big number of people like in quantitative research. Common characteristics of the qualitative methods are: in-depth, open-ended answers, possibility to express respondents thoughts and obtained experience with minimum guidelines of how they should answer. Below is introduced table with advantages and disadvantages of qualitative method of data collection.

Table 2.1 – Advantages and disadvantages of qualitative method of data collection

Advantages	**Disadvantages**
Possibility to obtain rich scope of general information about respondents and companies, respondents positions and experience, possibility to get some advice form experienced employees	Involvement in research small number of respondents (companies) if compare to quantitative method.
Introduce more personnel form of receiving information	Evaluation of qualitative results generally requires researcher's judgments, which can arise questions about objectivity.
Statistical tests are less important, as information is understandable by the majority.	Analysis of the qualitative research material is time-consuming

Source: Compiled from Brunt (1997)

Quantitate approach in compare with qualitative collects and make evaluation of numerical information. As Brunt (1997) mentions quantitative methods involve statistical analysis. Below introduced table with quantitative advantages.

Table 2.2 – Advantages and disadvantages of quantitative method

Advantages	**Disadvantages**
Statistical analysis is used to draw conclusions	No standards for implementation
More reliable and objective	Process can take quite long time
Subjectivity of researcher in methodology is recognized less	

Source: Compiled from Brunt (1997)

Below in the table 2.3, introduced comparative characteristics of qualitative and quantitative data.

Table 2.3 - Distinctions between qualitative and quantitative data

Quantitative	**Qualitative**
Based on meaning s derived from numbers	Based on meaning expressed through the words
Collection of results in numerical and standardized data	Collection results in non-standardized data requiring classification into categories
Analysis conducted through the use of statistics	Analysis conducted through the use of conceptualization

Source: Compiled from Saunders (2000)

Both qualitative and quantitative research methods were used in order to improve evaluation and ensure reliability of data as disadvantages of one type are balanced by advantages of another.

2.3 Approaches of the thesis

In the research were used both primary and secondary research. Primary research is used for collecting new information from new sources. (Brunt, 1997) Under the primary research in this thesis were used answers for open–ended questionnaires by 7 respondents from spin-off companies in USA and Canada. Secondary research introduces collection of information, which already exist. (Brunt, 1997). Secondary research of this thesis includes quantitative and qualitative documentary analysis. Under quantitative documentary analysis is understand analysis of financial statements of the chosen for performance analysis spin-off. During this analysis were evaluated balanced sheets of the companies, income statements and statements of cash flows. Under qualitative documentary analysis can be understand analysis of annual reports of the energy and financial services spin-off with the aim to find explanation for calculated financial ratios.

2.4 Presentation of spin-offs companies, that took part in questionnaires

As one of the main conditions of given by respondents answers was policy of confidentiality of their company, answers of respondents will be treated confidentially, names of spin-off companies will not be indicated in the analysis.

In the work took part spin-off companies from 7 totally different spheres, which are: military, energy, financial services, exploration of mineral properties, commercial services, development of medical devices, manufacture of laboratory equipment. Among them were found 4 restructuring driven spin-offs, 2 technology spin-offs and 1 REIT.

57,1 % of respondents were found in the introduction stage at the market, 28,6 at growth stage and 14,3 % at the maturity stage.

2.5 Presentation of spin-offs companies that were taken for performance analysis

For performance analysis were taken two companies from unrelated industries, estimation of which occurred in different period. One of them is energy spin-off of restructuring driven type and in growth stage of development was evaluated through 2011-2014 years. And another financial services spin-off also of restructuring driven type but at maturity stage at the market was analyzed through 2010-2014. Energy spin-off had parent company with unrelated business to spin-off, which is telecommunications and financial services spin-off has parent company with related to it financial services business. Among the reasons why for performance analysis were chosen companies from different industries are: availability of information, access to the necessary for calculations financial ratios data and possibility to evaluate performance changes of spin-off in two different industries. Different years of analysis were taken in order to follow changes in spin-off performance form the moment of spin-off creation till the last available day. Availability of information played important role for spin-off choice, as were found annual reports, which did not have necessary data for calculating ratios or had of data for performance analysis for a very short period of time (1-2 years), which was not enough for performance evaluation. That's why was taken decision of performance estimation of energy and financial services spin-off.

2.6 Data collection

2.6.1 Questionnaires

With the help of website "Stock spin-off" was possible correctly identify parent and spin-off entities from USA and Canada. Parent companies and spin-offs from these countries were chosen because of availability of information, which include availability of contact information on the website of the spin-off companies for getting answers for open-ended questionnaires. Another important criterion of spin-off companies' selection was access to companies' financial statements and availability of data for ratio analysis of spin-off performance.

First part of analysis was implemented with the use of open-ended questionnaires. Open-ended questionnaires were e-mailed to the respondents, who was taking managerial positions in the spin-off companies in the United States and Canada. For the purpose of research was used purposive sampling as were approached only respondents, which hold administrative and managerial positions within the company. Names and addresses of respondents were found on the website of chosen spin-off companies. Were approached 50 spin-off companies with the target to get answers from 10 respondents. Target to get answers from 10 respondent of 50 can be explained by the fact that generally people, that working in organization are busy with their work task and don't have time to answer student questionnaires. As it found out, in the process of sending questionnaires, some companies answered that they have very strict confidential policy, some did not have time to participate in questionnaire because of big number of the same requests and another indicated that they do not participate in the student surveys. During the research were obtained 7 answers from 10, which means 70% of planned responses. From 7 companies answered to the questionnaires 2 were from Canada and 5 were from USA. Companies from USA and Canada where chosen because of availability of data about spin-offs created in recent years.

Questions that were used in open-ended questionnaires, created with the aim to answer developed research questions. Questions for the first part of master thesis analysis introduced in the appendix A.

2. 6.2 Financial ratios

Analysis of financial ratios of energy and financial services spin-off was used in order to understand how efficiently spin-offs could use its assets, equity and liability, expenses and revenue. For performance evaluation of spin-offs were chosen 4 groups of ratios, which are: activity and liquidity, leverage and profitability ratios, which introduced in the table 4.7 in chapter 3. Formulas that were used for performance evaluation introduced in chapter 3, under formulas 3.1-3.14. Analysis of financial ratios occurred based on found on the website of chosen spin-off companies' annual financial reports. For energy spin-off analysis were calculated ratios from 2011-2014 and for financial services spin-off were calculated ratios from 2010- 2014. Ratios were calculated based on data from balance sheets and income statements, in particularly, which were found inside annual financial reports.

2.7 Data analysis

Analysis part of this master thesis consist of 2 parts. The first part is about analysis of open-ended questionnaires, which were designed in order to evaluate general perception of participants from spin-off companies on the parent company influence on spin-off performance. The second part of analysis introduces financial ratio performance analysis of two spin-offs from different industries with the aim to evaluate changes occurred in their performance from the year of separation till 2014.

2.7.1 Presentation of model for open-ended questionnaires analysis

Following the instruction of coding introduced in the work of Soldana (2009) was created model for evaluation of open-ended questionnaires suitable for current master thesis. Stages of model analysis introduced below:

1. Data obtained from respondents was gathered and grouped by questions, read and re-read in order to obtain general sense about the variety of existing answers on the raised questions.

2. For each of the questions the most important statements and ideas were underlined.

3. Significant statements and ideas were given codes. Each code was put into the appropriate category. After identifying appropriate categories were created relevant themes. Information about written codes, categories and themes is introduced in appendix B.

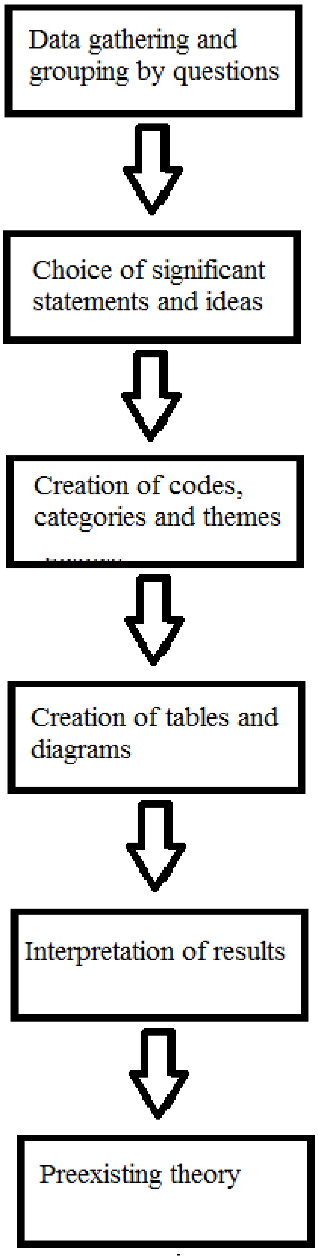
4. For all found categories were given indexes. Based on created indexes and with the use of SPSS Statistics were made necessary tables and diagrams.

5. On the stage of results interpretation, data within themes and categories was reviewed and analysis for each of the theme was done. During analysis were used direct quotes of respondents for better interpretation and understanding of results.

6. On the last stage ‘preexisting literature’ results upon found themes were compared with possible authors opinions found in the I chapter of master thesis.

Analysis of open-ended questionnaires (figure 2.1) included the following stages: data gathering and grouping by questions; choice of significant statements and ideas; creation of codes, categories and themes; creation of tables and diagrams; interpretation of results; preexisting theory.

Figure 2.1 – Model for open-ended questionnaires analysis



Source: Own-compilation

2.7.2 Presentation of model for performance analysis of spin-off companies

Second part of analysis, introduce evaluation of performance of two spin-off companies was made on the base of model of Hossan & Habib (2010), which is introduced at the figure 2.2. Model, which authors used in their research for comparative analysis was a little modified with the aim to make analysis of each of the spin-off company performance separately. As this master thesis uses to evaluate 2 spin-off companies from different industries (energy and financial services) within a different period of time (one is analyzed in the period of 2011-2014 and another 2010-2104) instead of comparative analysis was used evaluation of changes occurred in trend and made appropriate comments. Model of performance analysis consist of next stages:

1. *Selection of annual financial report*. On this stage occurred search for the reports on websites of spin-off companies with the aim to find information relevant for ratio analysis. In order to evaluate changes in performance of energy spin-off were used financial reports of 2011-2104 years. For evaluation of financial services spin-off performance was taken period from 2010-2014.

2. *Identification of main documents for performance analysis of the company*, which is balance sheet, income statement and statement of cash flows. From balance sheets, data was taken for evaluation liquidity ratios, activity ratios and leverage ratios. Balance sheets for energy and financial service spin-off introduced in the appendices C, D, I, J, K. Income statement was used for evaluation of activity and profitability ratios. Income statements of energy and financial spin-offs are introduced in the appendices E, F, L, M. In order to have an overall picture of company's operating, financial and investing activities statements of cash flows were used, which introduced in appendices G, H, N, O.

3. *Ration analysis*. In order to evaluate possibility of company to generate effectively liquidity, assets, revenues, expenses, shareholder's equity were used 4 groups of ratios, which are liquidity, activity, leverage and profitability. Under liquidity ratios were estimated cash ratio (formula 3.1) and current ratio (formula 3.2). Activity ratios were introduced with inventory turnover ratio (formula 3.3) and inventory turn-days ratio (formula 3.4), total asset turnover ratio (formula 3.5), accounts receivable turnover ratio (formula 3.6), average collection period (formula 3.7). Under leverage ratio were

analyzed debt ratio (formula 3.8) and debt to equity ratio (formula 3.9). And the last group profitability ratios that were analyzed are ROA (formula 3.10), ROE (formula 3.11), gross profit margin ratio (3.12), operating profit margin ratio (3.13) and net profit margin ratio (3.14). All formulas for ratio analysis of the spin-off performance and their description are introduced in the chapter 3.

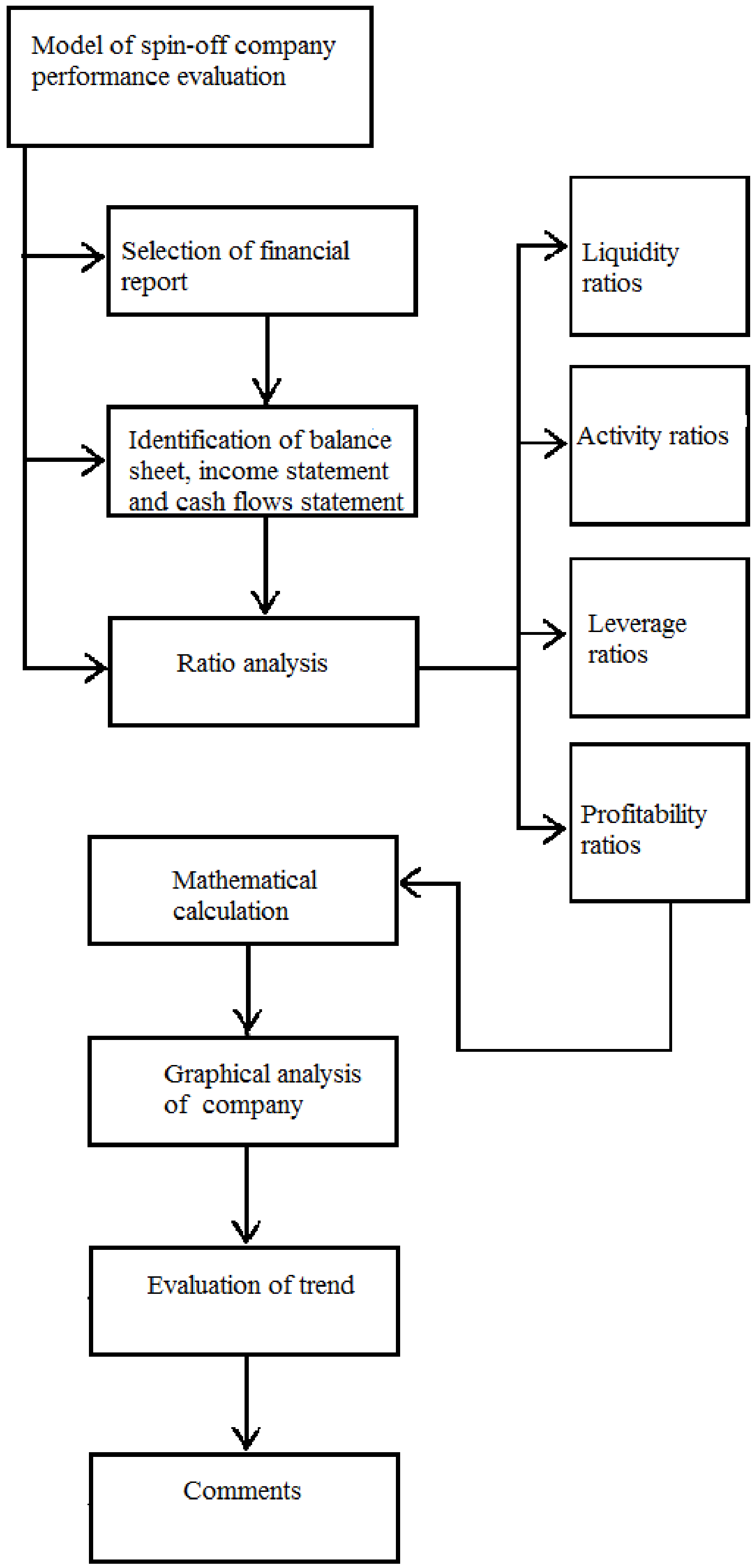
4. *Mathematical calculation*. Based on the balance sheet and income statements were calculated liquidity, activity, leverage and profitability ratios. Formulas, that were used for calculation ratios introduce in the chapter 3. For evaluation of financial services spin-off performance were not calculated inventory turnover ratio and inventory turn-days as this company is service company content of inventory was not significant for analysis. Also in profitability ratios was not calculated gross profit as company does not have cost of goods sold or direct cost of revenues at the balance sheet. There was no need also to calculate cash ratio as it was good seen from balance sheet, that major part of the most liquid assets of financial services spin-off was taken by marketable securities.

5. *Graphical analysis of spin-off company*. Based on made mathematical calculations were build graphics. In order to build graphics was used MS Excel. In all cases for analysis of financial ratios were used line graphics for further better evaluation of spin-off companies' changes in trend.

6. *Evaluation of the trend and writing of commentaries*. Based on the graphical data and with the use of information from spin-off companies' annual reports, were explained different ups and downs,that were found in the graphics. Comparative analysis of first year after separation from parent was made with the last available year.

On the base of analyzed ratios was made overall conclusion about performance of financial services and energy spin-off.

Figure 2.2 – Model for performance evaluation of spin-off companies



Source: Own-compilation

CHAPTER III: ANALYSIS, DISCUSION AND FINDINGS

This chapter in divided in two parts. The first part presents analysis of open-ended questionnaires, which were designed for evaluation of general perception of participants from spin-off companies about parent company's influence on spin-off performance in the post-spin-off period. The second part of this chapter introduces financial ratio analysis of the performance of two spin-off companies. Here will be discussed and compared results that were found in the literature review with analysis of respondents answers, will be given evaluation of the spin-offs performance.

3.1 Analysis of open-ended questionnaires

In order to make analysis of open-ended questionnaires the process of open coding was chosen. With the help of this process were identified main categories and themes of the questionnaire. Below will be discussed identified themes.

3.1.1 Theme 1: Category of respondents

All respondents who took part in open-ended questionnaires were found in group of administrative and managerial personnel. Here are positions of respondents that took part in questionnaires: treasurer and director of investor relations (senior vice president), investor relations managers, senior vice president communications, vice president of operations, vice president business development, vice president corporate communications.

3.1.2 Theme 2: Life cycle stage of spin-off at the market

In the table 3.1 can be seen life cycle stages of spin-off at the market, where most of spin-offs (57, 1 %) were found in the beginning of their activities.

Table 3.1 – Life cycle stages of spin-off at the market

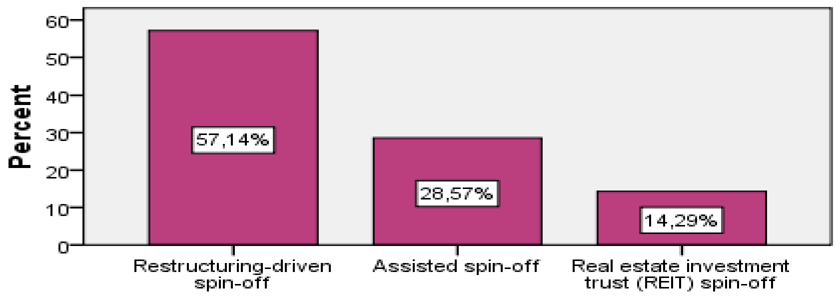
Stage	**Frequency**	**Percent**
Introduction stage	4	57,1
Growth stage	2	28,6
Maturity stage	1	14,3
Total	7	100,0

Source: Own compilation

3.1.3 Theme 3: Types of corporate spin-off

On the figure 3.1 below can be seen that during the analysis were found that in questionnaire took part 4 restructuring-driven spin-offs, 2 technology spin-offs and 1 real estate investment trust (REIT) spin-off.

Figure 3.1 – Corporate spin-off types



Source: Own-compilation

Van de Velde et al. (2007), for example, while measuring performance of restructuring driven, assisted and entrepreneurial spin-offs, defined that restructuring driven spin-offs had the weakest results in growth, profitability and liquidity.

3.1.4 Theme 4: Reasons for spin-off creation

According to the studied literature, different authors suggest different drivers of spin-off creation. Among the common drivers that were found in the studied literature and that respondents mentioned are: corporate focus increase, conflict of interest, shareholder value maximization, tax avoidance, risk minimization, different capital requirements, attraction of investors, focus on different markets, equity as an acquisition currency, liabilities reallocation, cost reduction. Table 3.2 Illustrates different reasons of spin-off creation to opinion of 7 respondents.

Table 3.2 - Reasons for spin-off creation according to respondents

Reasons	**Frequency**	**Percent**
Conflict of interest	2	11,1%
Shareholder value maximization	3	16,7%
Tax avoidance	1	5,6%
Different capital requarements	1	5,6%
Corporate focus increase and risk minimization	6	33,6%
Attraction of investors	1	5,6%
Equity as an acquisition currency	1	5,6%
Minimization of bureaucracy	1	5,6%
Liabilities reallocation	1	5,6%
Cost reduction	1	5,6%
Total	18	100,0

Source: Own-compilation

Almost all respondent indicated their own different from others reasons. More than one respondent answered, that the main reason of spin-off creation was 'corporate focus increase and risk minimization', 'shareholder value maximization' and 'conflict of interest'.

For 33,6 % of respondents chose as one of the main factors of spin-off creation 'corporate focus increase and risk minimization'. On what concerns risk minimization, Canina & Klein (1998) mentioned that 'corporate focus increase and risk minimization' driver occurs, when company and spin-off oriented on totally different markets and serve different business lines. 2 out of 6 respondents proved statement of Canina & Klein (1998), explaining that main reason of spin-off creation was orientation on totally different markets by parent company and spin-off. Another respondent also agreed with Canina & Klein (1998) while admitted, that the reason of spin-off creation was necessity of different from parent company operations, customers and transactions.

Two more of respondents in relation of 'corporate focus increase and risk minimization' commented their choice of spin-off creation by saying, that business of the parent and spin-off were unrelated and management of the companies felt necessity to increase company's corporate focus by their separation. While one of respondents added that *"spin-off allowed parent company to focus on flagship property"*, another respondent said that "*spin-off business was not related to the parent company core business"*. Similar view was documented by Canina & Klein (1998), who mentined that by separating unrelated businesses spin-off creates opportunities for parent and its subsidiary to grow in a direction that is most suitable for the industries, where they operate. On the other hand Daley et al. (1997) found, that separation from parent helps significantly improve operating performance and create value for shareholders but only for cross-industry spin-offs and not for spin-offs within the parent company industry.

11, 1 % of respondents answered that one of the main reasons of spin-off creation was conflict of interest in the parent company, where one of the respondents explained, that customers of the parent company required to manage and to avoid this conflict. Similar idea can be found in the report of Sullivan & Cromwell (2010), where 'method of conflict resolution' is also indicated as a driver for spin-off creation, which helps parent company and its subsidiary to go their own ways.

Boreiko & Murgia (2013) mentioned in their research that due to the spin-off announcement occur changes in the share price of spin-offs, which positively influence increase in shareholder wealth. Similar idea was found in the answers of respondents. 16, 7 % of respondents indicated that one of the main reasons of spin-off creation was shareholder value maximization. One of the respondents explained that spin-off served as an option to unlock and create shareholder value without paying taxes and without business risk. While the other respondent admitted, that it was management's belief, that spin-off would create value for shareholders.

'Liabilities reallocation' is another reason of spin-of creation that was mentioned by one of the respondents. As respondent explained, that "*liability of new spin-off high, but there no real liability challenges in old business".*

'Cost reduction' reason that was mentioned by one of the respondents was chosen in order to increase spin-off competitiveness. Cumming & Mallie (1999) in relation to the respondent answer mention that after separation from the parent, spin-off become free form extra cost, that was obligatory for it to pay, when it was with parent entire company.

One of the respondents admitted that, first "*spin-off was designed to appeal investors, seeking income and growth".* That means that company created spin-off with the aim to attract investors. Where similar idea can be found in the report of Wachtell, Lipton, Rosen

& Katz (2014) and in the research of Krishnaswami & Subramaniam (1999), stated that spin-off helps to create clear and objective investment potentials.

Another respondent mentioned ‘equity as an acquisition currency’ and explained that the reason of spin-off creation were” permanent *capital base units creation that can be used as currency in acquisitions”*. In the report of Wachtell, Lipton, Rosen & Katz (2014) was found similar idea, where was indicated that with the help of spin-off is possible to make impact on acquisitions while using its stock as a compensation.

“Tax avoidance, that was also mentioned, according to Miles & Woolridge (1999) appeared to be one of the main factor, that influence distribution of shares to shareholders through spin-off.

One more respondent indicated different capital requirements the main driver of spin-off creation. Similar idea can be found in the report of Wachtell, Lipton, Rosen & Katz (2014), where mentioned that spin-off creation due to different capital requirements allowed parent company and spin-off to follow capital structure, which was most suitable for their business implementation.

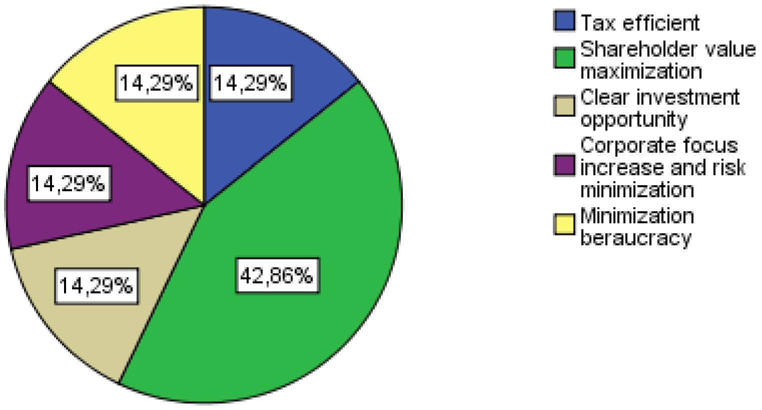
Driver, which emerged from the respondents answers, is ‘minimization of bureaucracy’. What concerns ‘minimization of bureaucracy’, one of the respondents mentioned, that “*parent company business very slow moving and conservative, in contrast spin-off technology moving at the speed of light”.* Respondent added that both companies needed changes because of different business speed.

As it can be seen, it is impossible to find one unique driver of spin-off creation. Both literature and respondents proved this idea. In each case driver of spin-off creation will depend on different factors: industry where spin-off and parent operate, financial position of parent, market conditions, business strategy of parent company and other reasons.

3.1.5 Theme 5: Major factor of spin-off creation

At the figure 3.2 introduced major factors that influenced companies to create spin-off. In compare with previous question, companies were necessary to think about only one major factor that influence spin-off creation.

Figure 3.2 - Major factor that influence spin-off creation



Source: Own compilation

42, 86% (3 respondents of 7) of respondents chose shareholder value maximization as the major factor of spin-off creation. One of respondents explained his choice of putting as a major factor shareholder value maximization in such way, that "*shareholders benefit from a spin-off as they receive shares in both entities*". In addition another respondent in order to prove his choice also mentioned:"*We believe that spin-off best served our shareholders*".

In the literature review were found two different opinions concerns shareholder value maximization. On the one hand Rosenfeld (1984) underlines, that reason of spin-off creation depends on situation and mentions that company should launch spin-off only in case spin-off will bring benefit to company's shareholders. Krishnaswami & Subramaniam (1999) agree with Rosenfeld (1984) and add that most spin-offs are created with the aim to increase shareholder value and therefore market value of the company. While, Galai & Masulis (1976) found in their research that in increase in shareholder value occurred due to decreased transaction costs, for example through tax or better managerial governance.

On the other hand, according to Munteanu et al. (2012) sole concentration on maximization value was criticized in the work of Jensen (2001) and Friedman & Miles (2002). Authors argued that except thinking only about shareholder's value maximization, managers should also take into account interest of the stakeholders groups such as employees, suppliers and clients.

Among the other major factors of spin-off creation were indicated ‘clear investment opportunity’ and ‘corporate focus increase and risk minimization’. One of the respondent admitted, that “*spin-off wanted to give investors an opportunity to invest in a listed global company”*. And another respondent explained his choice of ‘corporate focus increase and risk minimization’ factor as necessity for spin-off to search for “*different types of customers and clients”*.

3.1.6 Theme 6: Challengers of spin-off creation

At the table 3.3 introduced main challenges of spin-off creation according to the answers of respondents. As it can be seen challenges as reasons of spin-off creation, vary from company to company. Only two indicators were chosen twice, which are ‘intense competition’ and ‘resource allocation’.

Table 3.3 – Challenges of spin-off creation

Challenges	**Frequency**	**Percent**
Intense competition	2	20,0
Market volume decline	1	10,0
Acquisition target	1	10,0
Resource allocation	3	30,0
Necessety of investor education	1	10,0
Sale of products through parent company	1	10,0
Dismissal of employees	1	10,0
Total	10	100,0%

Source: Own compilation

Challenge of ‘resource allocation’ was mentioned by the 30 % of respondents. One of respondents explained, that **“***were some initial tensions regarding the level of resources that can be allocated”*. That was because parent companies of spin-offs had doubts about what resource and in which quantity to transfer to spin-off. Another respondent mentioned that after separation spin-off felt lack of resources, which forced it to be flexible, as parent company did not transfer enough resources for spin-off development. In the support of the idea of ‘resource allocation’ in the report of Towers Watson (2011) was found, that human resource management of spin-off company should be able to build new team even in conditions of limited resources.

20 % of respondents indicated as a challenge ‘intense competition’. One of the respondents explained, that after separation spin-off faced aggressive competition that negatively affected spin-off revenues and growth. Respondent commented, that market at which spin-off operated, was characterized by quickly changing technology and

customer needs. Spin-off had to compete with companies that had more financial resources and greater name recognition. In the literature also possible to find influence of competition on spin-off. For example, in the report of Towers Watson (2011) was indicated that competition can cause a problem of retaining and transmitting talented employees to work in spin-off.

Eckbo (2010) and Cusatis et al. (1993) state that after separation from the parent company spin-off falls under the threat of being easily acquired by more powerful company. In confirmation of this statement, respondent 1 indicated as the main challenge of spin-off creation acquisition target. He explained, that after spin-off creation both parent company and spin-off became more focused and therefore more attractive as an acquisition target than when parent and spin-off-off where one organization. From the other side Daines & Klausner (2004) state that creation of spin-off can serve also as an instrument of takeover defense. Authors explained that after separation, spin-off gains more protection from the hostile takeovers than parent company.

Among the challenges that emerged from respondents answers were 'necessity of investor education', sales of products through the parent company, market volume decline, dismissal of employees.

One of respondents mentioned that spin-off was not the first experience for the parent company, which had already two similar working spin-offs. Respondent admitted that after spin-off creation company came across the problem of lack of investor education, as the company and the partnership structure were relatively new for the market.

Another challenge that was indicated by the next respondent was 'sale of products through the parent company', which led to the absence of real on-going revenue stream for spin-off. Spin-off was forced to sell products through the parent company and respondent added, that "*parent company does not have margin on new company products to have a lot of interest in selling and have to go out to get more cash".* That means that spin-off must find ways how to sell products without the help of the parent.

'Market volume decline' is another challenge that spin-off came across. As one of the respondents described, the reason of this was decrease in total amount of transactions at one of the spin-off markets in the specific period.

“Employees dismissal” is one more challenge that was indicated by the next respondent. Respondent commented, that after separation new entities faced the challenge of surpass of employees as structure of both companies changed.

As it possible, to see challenges of spin-off creation like reasons depend on different factors and varies in the literature and from company to company.

3.1.7 Theme 7: Post-spin-off relations with the parent

At the table 3.4 is introduced types of relationships between parent and spin-off based on respondent answers. As it can be seen from the table below types of relationships varies.

Table 3.4 – Responses about type of spin-off relations with the parent

Relations	Frequency	Percent
Not sure	1	14,3
Collaborator	3	42,9
Manager	1	14,3
Distributor	1	14,3
Supplier	1	14,3
Total	7	100,0

Source: Own-compilation

42,9 % of respondents (two restructuring-driven and one technology spin-off) admitted, that parent company is collaborator for them. One of the respondents from technology spin-off commented that parent company and spin-off “*working together on technology creation”.* Respondent from restructuring-driven spin-off mentioned that parent and spin-off are in arm’s length counterparty relations. Such kind of relationships means that companies are collaborators and in commercial relations with each other can establish contract prices in amount that is different from the market. Respondent explained that the main aim of such kind of relations was tax payment reduction. And one more respondent commented, that parent company and spin-off introduce separate companies, but spin-off have an agreement with parent for using it district for exploration and development of necessary resources. Regarding respondents’ answers, Sapienza et al. (2004) mentioned that through collaboration parent company and spin-off with diverse knowledge base can make a knowledge exchange, which in future may influence post-spin-off growth. From the other hand, Parhankangas & Arenius (2003) (cit in Elfring and Baven, 1996) admit that an ongoing relationships with parent company may negatively impact spin-off development. Authors mention that spin-off may feel no need to search for new customers or invest in new product lines, while feeling that parent can be a source of all necessary business sources.

Another respondent from restructuring-driven spin-off was not sure about the type of relationships of parent company and spin-off. As respondent explained, despite that fact that parent company and spin-off belongs to different industries, they still have one common business: parent company designs technology and spin-off implements it. Parent company and spin-off are collaborators in this case. But at the same time respondent underlined, existence of areas, where parent and spin-off compete. That means in some parts of business parent and spin-off are competitors.

One of respondents from restructuring-driven spin-off mentioned, that parent company *"still shares some resources and personnel"* with spin-off. That means that parent is a supplier of resources and employees for spin-off.

Respondent from real estate investment trust indicated, that "*parent company manages spin-off"*. Respondent explained that parent company controls business of spin-off through the interest in the partnership.

And the last respondent from technology spin-off indicated, that "*parent company is a distributor for the research market'*.

Based on the last respondents' answer, that company used to be for spin-off like a 'supplier, 'manager' and 'distributor' possible to mention, that Bernardt et al. (2002) in its turn also define bonuses of parent company support, which can be expressed in access to parent company customers, financial resources and suppliers.

As it can be seen parent company can use such relations with spin-off as 'collaborator', 'manager', 'distributor' , 'supplier' in order to implement transfer of its resources and knowledge. Majority of respondents (42, 9%) mentioned that they 'collaborators' with parent. Collaboration with parent expressed in the form of agreement for using territory, in work on the project and in establishment of contract prices in amount that different from market price.

3.1.8 Theme 8: Changes occurred in spin-off performance after separation

Based on the table 3.5 possible to admit among different changes that occurred with spin-off category "became more focused" is the only one category that was mention by respondents more than 1 time.

Table 3.5 - Changes in spin-off performance after separation

Changes	**Frequency**	**Percent**
Became more focused	4	40,0%
Got freedom in actions	1	10,0%
Continues to improve	1	10,0%
No major changes	1	10,0%
Could hire professional staff	1	10,0%
Enchanced value of the company and cost reduction	2	20,0%
Total	10	100,0%

Source: Own-compilation

Majority of respondents, which are 40,0 % , mentioned category "became more focused". For example, one of the respondents indicated that after separation spin-off became more focused on value creation. Respondent added, that separation helped to design spin-off in a matrix with vertical focus on the customer and horizontal focus on the delivery of services and offerings.

Another respondent that indicated category 'became more focused' mentioned. That "*spin-off is now more focused on increasing quarterly cash distributions to unit holders than when it was as a wholly owned subsidiary"*.

One more respondent chose category 'became more focused', because separation from parent helped spin-off to increase its focus on particular types of projects, helped to hire high-level professionals. Similar to respondents answers idea about corporate focus increase was mentioned in the work of Canina & Klein (1998), where authors state, that spin-off creation focus attention of parent company and spin-off on their core activities, which helps in a such way to decrease risk of each company's business.

20,0 % of respondents mentioned category 'enhanced value of the company and cost reduction". One of respondents mentioned, that separation helped spin-off to become more attractive at the market, and added, "*we are now more competitive in our peer group with a cost structure that fits our needs*". Another respondent also admitted, that after separation from parent spin-off could decrease its expenditures and increase value of the company through allocation of resources in a more focused way. Similar idea to respondents' answers about value creation was found in the work of Ahn & Walker (2007), who introduce spin-off as an corporate action by which occurs decrease in the scope of parent company's activities and increase in value of two newly created entities. The idea about cost reduction, that also reflects respondents answers was mentioned by Cumming & Mallie (1999), who indicated that after separation from the parent spin-off does not need to pay extra costs as it was when companies where combined.

Category 'freedom in actions' was mentioned next, where respondent explained, that spin-off "*became more free to pursue growth strategies and allocate capital effectively*". Chemmanur & Paeglis (2000) proved the idea of respondents by mentioning, that after separation from parent spin-off become independent company with separate board of directors and management team.

Two next respondents were not accurate in their answers, for example, one of respondents just admitted, that "*spin-off continues to improve*". And the second respondent mentioned that after separation in spin-off did not happen any major changes.

To sum it up, the majority of respondents (40%) indicated category "became more focused" under the main changes that occurred in spin-off, a little bit less, 20% of respondents chose 'enhanced value of the company and cost reduction'.

3.1.9 Theme 9: Resources and knowledge from the parent company

In the table 3.6 introduced resources that were transferred from the parent company to spin-off. It is possible to see that such categories as 'human resources', 'knowledge' and "financial resources" were most popular among 7 respondents.

Table 3.6 – Resources that were transferred from the parent company to spin-off

Resource type	**Frequency**	**Percent**
Financial resources	4	23,5%
Human resources	6	35,3%
Knowledge	5	29,4%
Nothing	1	5,9%
Physical resources	1	5,9%
Total	17	100,0%

Source: Own-compilation

Under the category of ‘financial resources’ majority of respondents indicated ‘cash’ as the main source of finance, only one of the respondents indicated ‘debt’. Another respondent indicated that parent company transferred to spin-off ‘nothing’, while explaining that parent company managing spin-off like a partnership. This respondent commented that “*spin-off has access to all facets of the capital market, including equity sales, preferred share financing, debt markets and bank facilities”*.

Under the category of ‘human resources’ most of respondents indicated transfer of personnel, employees and management. Only one of respondents, which is in partnership with parent mentioned, that in the case of real estate spin-off transfer of employees, intellectual property and technology did not occur. Two of respondents admitted that in their companies, presidents and chief executive officers left parent companies in order to take the same positions in spin-offs. In the work of Holloman & Klieb (2013) was found similar idea about intangible resource reallocation, where authors mention that not only human capital, but also parent company’s culture can be transferred to spin-off with former parent company’s employees’ and management reallocation.

In the relation to the next category, Parhankangas & Arenius (2003) and Sapienza et al. (2004) mentioned, that knowledge transfer from the parent company to spin-off is appeared to be one of the main characteristics of corporate spin-off process. Under the category ‘knowledge’ were transmitted such knowledge types as intellectual property, marketing, managerial, technical and technological.

Two of respondents mentioned intellectual property transfer. One more respondent commented, that “*spin-off got large transfers of technological and managerial knowledge’.* Respondent explained that” *transfer of knowledge occured through individuals and various databases, for example, the new team which came on board of spin-off had extensive experience and knowledge required for the next stage of the permitting and development of the company's flagship asset”.* New team that came on the board of spin-off from the parent company introduced managerial knowledge transfer. Managerial knowledge transfer includes marketing knowledge, which helps spin-off through access to the marketing knowledge of the parent company to focus on particular channels of distribution and groups of customers. Under knowledge transfer from ‘various databases’ can be understand technical knowledge transfer (software), marketing knowledge transfer, production knowledge transfer, which include access to the production knowledge of the parent company and which can help spin-off better implement production techniques.

Another respondent indicated that parent company transferred to the spin-off the whole line for developing advanced instrumentation, which was indicated like transfer of technical and technological knowledge.

Regarding respondents answers Sapienza et al. (2004) found out that medium levels of technological and production knowledge relatedness between parent and spin-off produce the highest levels of post-spin-off growth. While authors could find influence of technological and production knowledge relatedness on spin-off growth, they could not find significant influence of marketing knowledge relatedness on spin-off growth.

And the last category that was mentioned is ‘physical resources’ under which was transferred ‘product line’.

In relation to the respondents answers Sapienza et al. (2004) mentioned, that the more efficient spin-off learning from the parent the quicker would occur adaptation, which will lead to a faster post-spin-off growth. Resource and knowledge that spin-off obtained from the parent varies from one company to another and depend on different factors:on industry where parent and spin-off operate, financial position of parent company, on the reason why spin-off was separated, on business relatedness and others.

3.1.10 Theme 10: Prospects for spin-off development

According to the prospects of the spin-off companies for the future development it is possible to notice that all of respondents put growth of the company as a main goal, but have different visions of how they will achieve this goal (table 3.7).

Table 3.7 – Growth prospects of 7 spin-offs

Growth prospects	Frequency	Percent
Further business optimization	1	14,3
To become a leader in the industry	1	14,3
Attraction of new customers and geographic scope broadening	1	14,3
Make investments	1	14,3
Development of new technologies	1	14,3
Launch of new technology	1	14,3
Further business construction	1	14,3
Total	7	100,0

Source: Own-compilation

For example, one of respondents indicated under the future spin-off prospects further growth of the company, which include business optimization (business model and operational structure optimization, cost structure optimization in order to increase competitiveness, focus on sustaining revenues).

Second respondent admitted, that spin-off intended to become a leader in the industry. Respondent commented, that in order to achieve this goal spin-off would make focus on market share increase, on development of innovative solutions for customers, on data assets expansion.

Third respondent indicated, that "*spin-off has strong options for future growth and value creation*". Respondent added that spin-off would implement it through attraction of new customers and geographic scope broadening.

Fourth respondent also mentioned initiative for growth and called his future prospects 'excellent'. Respondent explained that company would use access to the parent capital to implement this idea. Fourth respondent added, that "*spin-off has made a number of significant investments since being spun off*".

Fifth respondent named "*development of new technology*" as a future prospect of spin-off development. Respondent explained that spin-off planned to work on expansion of it activities in new areas.

Respondent sixth indicated, that *"technology breakthrough should happen".* That means that spin-off is going to launch new technology and expand it business.

Seventh respondent admitted future growth of spin-off as the prospect for it development and commented, that "*spin-off will go forward with construction*".

All respondents mentioned future growth of the company as the main prospect of spin-off development. Despite that all respondents expect growth of the company in the future, they have different plans of how they will accomplish it. Development of plans for spin-off future growth depends on spin-off type, industry in which spin-off operates and on spin-off strategy.

3.1.11 Theme 11: Comments of respondents about their experience of managing spin-off

While answering to this question, all respondents introduced their own experience of spin-off management and gave advice, what is necessary to do and what is not for not repeating mistakes that were made on their road of spin-off creation and management.

First respondent, for example, said, that "*spin-offs must have faith in what they are doing if it is uncertainty, it will not be a successful spin-off.* That can be explained by the reason that decision of spin-off creation should not be spontaneous. Companies should measure chances of spin-off as an independent company. In this case, second respondent suggested, that "*parent need to be sure that spin-off has a good strategic direction and plan, as well as strong finance department".* Similar idea can be found in the work of Rosenfeld (1984), who warns that parent company should launch spin-off only in case if it sure, that spin-off can bring benefit to parent company's shareholders.

Based on reach experience of working with spin-offs, seventh respondent admitted that in spin-off "*the people are the heart of the matter*". Responded explained that "*ensuring a proper transition requires that you communicate frequently and transparently with your group and key stakeholders*". Further, the same respondent commented that this communication is necessary in order to insure that spin-off maintained corporate intelligence for an extended period through the transaction. For example in the report of Towers Watson (2011) in relation to respondents words about importance of people in spin-off, states, that if managers what to make spin-off successful they need to create leadership team with right people, as right leading team is a guarantee of spin-off future. success

Seventh respondent indicated that spin-off creation could take up to a year. Third respondent also indicated that spin-off required particular time to be implemented (depends on the company). Further, third respondent commented, that "*spin-off is rather complex form of corporate divestitures, which required attention to legal and other issues".*

Seventh respondent suggested to make lay-offs without hesitations during spin-off transition, if they necessary, because long hesitations might lead to loss of parent company and spin-off productivity.

Fourth respondent as only one representative of real estate spin-off came across the problem with investors, as they have limited knowledge about the structure of such kind of spin-off. That's why respondent 4 gave such advice for future spin-off creators: *"Never underestimate the time you need to spend educating investors on the strategy behind the spin-off".* On the way to overcome this challenge, spin-off created and implemented special program for investor, which contained one-on-one meetings, road shows and investor days.

Fifth respondent, representative of technology spin-off, named spin-off as a typical start-up company. Such comparison with start-up is not accidental as this kind of spin-off was separated from the parent with very limited resources, which made spin-off search for investors. Further, respondent admitted that there is no one-way of how spin-off should be implemented. He recommended that, "*everyone has to be much more flexible and every dollar is important for a much higher degree".* That means that not all spin-offs get enough support from their parent and despite this fact, they need to survive somehow and use rationally even little amount of money.

Sixth respondent also example of technology spin-off, suggested "*spin-off must drive innovation and stay agile".* Respondent underlined that it no sense to ask advice about spin-off management from so-called experts as they could took spin-off off its course. That's why author warned: *"Make sure you ask for help from people that have done it before, do not associate with people who did it and failed. They have no lessons to learn from…*

As it can be seen from the respondent's answers it is impossible to find one right way of spin-off creation and management as every spin-off case is unique. Answers of respondents just express their general perception and experience while working with spin-off. Some of advices that were given by respondents maybe useful for futu investigation.

3. 2 Analysis of spin-off performance

3.2.1 Description of chosen ratios

In the second part of analysis for financial evaluation of the spin-off's positions were chosen four groups of ratios, which are liquidity ratios, activity ratios, leverage ratios, profitability ratios. The subgroups of all 4 ratios introduced in the table 3.8. Analysis of financial ratios was chosen in order to find relationships between indicators in the financial statements that were calculated and presented in this part of analysis. (Com, 2010).

Table 3.8– Subgroups of financial ratios

Financial indicators	**Ratios**
Current ratio; Cash ratio	Liquidity
Accounts receivable turnover ratio; Average collection period Inventory turnover ratio; Inventory turn-days ratio Total asset turnover ratio	Activity
Debt ratio Debt-to-equity-ratio	Leverage
Gross profit margin ratio; Net profit margin ratio; Operating profit margin ratio; Return on assets (ROA); Return on equity (ROE)	Profitability

Source: Own-compilation

I. Liquidity ratios

This ratios estimate whether the company contains sufficient amount of liquid funds to pay short-term liabilities. (Bragg, 2002). Under liquid funds can be understand assets that can be transferred in cash in a short period. Liquidity ratios evaluate company's ability to cover short-term obligations with the help of short-term assets and with possibility to convert assets in cash without loss of their value. In this work were evaluated two types of liquidity ratios, which are: current ratio and cash ratio. In general, the larger liquidity ratios the better possibility of the company to fulfill its obligations.

a) Current ratio

This ration indicates connection between current asset and current liabilities, with a standard proportion of 2:1 and with an absolute minimum of liquidity 1:1. In means that it preferably that current assets should be double of current liabilities for proper operation of the company. The ratio less than 1 indicate that company have difficulties in covering its obligations. Current ratio estimates solvency of the company and strength of its working capital, company's ability to fulfill it short-term liabilities. This ratio assign that all current assets can be converted into cash in order to meet short-term liabilities. (Bragg, 2002). The formula of current ratio is introduced below:

$$\text{Current ratio} = \frac{\text{Total current assets}}{\text{Total current liabilities}} \tag{3.1}$$

b) Cash ratio

Cash ratio is the best indicator that shows the proportion of liabilities that company can pay right at the moment that taking into account the most liquid current assets such as cash and short-term marketable securities. The standard proportion for this ratio is 1:1, which indicates valid evidence of liquidity. (Bragg, 2002). The formula of cash ratio is introduced below:

$$\text{Cash ratio} = \frac{\text{Cash} + \text{Short-term marketable securites}}{\text{Total current liabilities}} \tag{3.2}$$

II. Activity ratios

Activity ratios calculated in order to estimate company's ability to use its funds effectively **(**Com, 2010).These ratios measure company's ability to make investments in assets and then use these assets in order to obtain revenue.

a) Inventory turnover ratio

Inventory turnover ratio indicates the number of times on average the company sold inventory during the particular period. This ratio reflects company's production and purchasing efficiency. The higher ratio the better, as it shows that sales of inventory goes quickly and little inventory is in the storage. But too high inventory ratio sometimes may cause understocking and loss of orders. Low ratio can mean overstocking or existence of drawbacks in the product line or marketing activity. (Poznanski et al., 2013). The formula for inventory turnover ratio is introduced below:

$$\text{Inventory turnover ratio} = \frac{\text{Cost of goods sold (direct cost of revenues)}}{\text{Average inventories}} \text{ (times)} \tag{3.3}$$

Where:

Average inventories = (beginning inventories+ending inventories)/2

b) Inventory turn-days ratio

This ratio indicates average days that is necessary to wait until inventory will be sold. The formula for inventory turn-days ratio is introduce below (Poznanski et al., 2013):

$$\text{Inventory turn-days ratio} = \frac{365}{\text{Inventory turnover ratio}} \text{ (days)} \tag{3.4}$$

c) Total asset turnover ratio

Total assets turnover measures how efficiently a company utilizes total assets to create sales revenue. An increasing ratio indicates that company produce more sales based on assets. (Poznanski et al., 2013). Formula for the total asset turnover ratio is introduced below (Tugas & del Rosario, 2012):

$$\text{Total asset turnover ratio} = \frac{\text{Net sales (revenue)}}{\text{Average total assets}} \tag{3.5}$$

d) Accounts receivable turnover ratio

Accounts receivable introduce total amount of money for product and services that company sells in a credit. Accounts receivable turnover ratio indicates number of times accounts receivable turnover during the year. This number of times introduce speed with which company can collect what she is owned to. It is generally preferred the higher turnover as it makes shorter time between sales and collecting cash. (Poznanski et al., 2013). Relatively low turnover can cause problems with liquidity, overstated income and production reduction.

$$\text{Accounts receivable turnover ratio} = \frac{\text{Net sales (revenue)}}{\text{Average accounts receivable}} \text{ (times)} \tag{3.6}$$

Where: Average accounts receivable =((beginning +ending accounts receivable)/2)

e) Average collection period

Average collection period indicates the average number of days that receivable are unexecuted. The less this period the better for the company. According to the Thomson Reuters (2008), general rule exists about the time allowed for payment by selling terms, which should not overcome more than 10-15 days. Despite the fact that for different industries and even for different companies can be established different limits of quantity of days, it is preferable to reduce the number of days for collecting accounts receivables. The formula for calculating average collection period in introduced below (Hossan & Habib, 2010):

$$\text{Average collection period} = \frac{365}{\text{Accounts receivable turnover}} \text{ (days)} \tag{3.7}$$

III. Leverage ratios

Leverage ratios evaluate effectiveness of company's financing methods, company's ability to meet its obligations. Company generally finance its assets or with equity or with debt. If company uses debt it obliged to pay interest and if company uses equity - dividends are paid by the judgment of board of directors. Leverage measures used for company's financial risk evaluation.

a) Debt ratio

Debt ratio shows the percentage of assets financed by short-term and long-term debt. Low percentage of ratio means that the company is less dependent on borrowed money and therefore has strong equity position. If the ratio is high, for example, above 1.0 it means that company can be in a risky position, because it has more debts than assets. (Bajkowski, 1999). Formula of the debt ratio is introduced below (Tugas & del Rosario, 2012)**:**

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} \text{ (times)} \tag{3.8}$$

b) Debt to equity ratio

Debt to equity ratio indicates relationships between spin-off's own capital and borrowed capital. Despite that different industries can have different standards for this ratio, for more companies accepted standard is 1:1, which means equal contribution to the company's assets from shareholders and creditors. (Thomson Reuters, 2008)

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Total stockholders' equity}} \text{ (times)} \tag{3.9}$$

IV. Profitability ratios

Profitability ratios indicate ability of the company to earn sufficient profit and return on investment. Ratios indicate financial health of the company and show how efficiently company control its assets. (Lesáková, 2007).

a) Return on assets (ROA)

Return on assets measures company's ability to transform its assets into profit. ROA also shows the company's ability to control costs and utilize resources. A high return means assets productivity and assets efficient management. (Bajkowski, 1999). Formula of ROA is introduced below:

$$\text{Return on assets (ROA)} = \frac{\text{Net income (loss)}}{\text{Average total assets}} * 100\% \tag{3.10}$$

b) Return on shareholder's equity (ROE)

The main aim of return on shareholder equity is to examine the impact of financial structure on company's earnings. Return on shareholder's equity indicates how much shareholders earned for their investment in the company. (Bajkowski, 1999).

$$\text{Return on equity (ROE)} = \frac{\text{Net income (loss)}}{\text{Average common stockholders' equity}} * 100\% \tag{3.11}$$

Where

$$\text{Average stockholders' equity} = (\text{beginning stockholders' equity} + \text{ending stockholders' equity}) / 2$$

c) Gross profit margin ratio

This ratio indicates how efficiently company uses it raw materials, labor and fixed assets during manufacturing process. (Hossan & Habib, 2010). Gross profit margin depends mainly on company's product pricing and material costs. The higher the percentage of margin and more stable, the greater will be company's profitability. (Bajkowski, 1999). Cost of sold goods (cost of direct revenues) can be effected by cost of labor, material, purchases cost. If company wants to maintain increase in gross margin it should better control production costs and suppliers, adequately price products. The formula for growth profit margin ratio is introduced below Hossan & Habib (2010).

$$\text{Gross profit margin ratio} = \frac{\text{Gross profit}}{\text{Net sales (revenue)}} * 100\% \tag{3.12}$$

d) Operating profit margin ratio

This ratio studied relationships between sales and cost before interest, taxes and non-operational expenses. The higher and more stable margin the better. (Bajkowski, 1999). Operating margin indicates profitability of the company's sales, it's formula introduced below:

$$\text{Operating profit margin ratio} = \frac{\text{Operating profit}}{\text{Net sales (revenue)}} * 100\% \qquad (3.13)$$

e) Net Profit Margin Ratio

This ratio indicates how much money company can make per every dollar of sales. This ratio shows the ability of company to cover all operating costs, including indirect costs. (Poznanski et al., 2013).

$$\text{Net profit margin ratio} = \frac{\text{Net income (loss)}}{\text{Net sales (revenue)}} * 100\% \qquad (3.14)$$

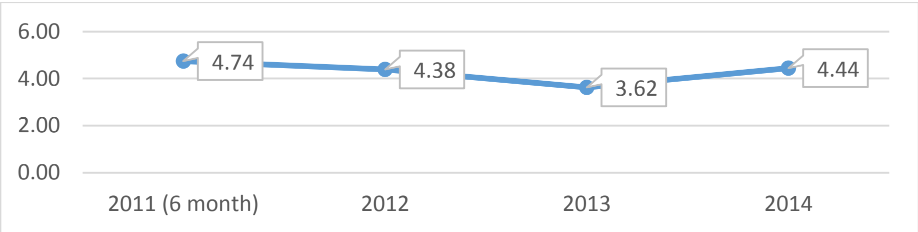
3. 3 Analysis of energy spin-off performance

3.3.1 Liquidity ratios analysis

a) Current ratio

According to the formula 3.1 was calculated current ratio, which figure 3.3 is introduced:

Figure 3.3 – Current ratio of energy spin-off (formula 3.1)

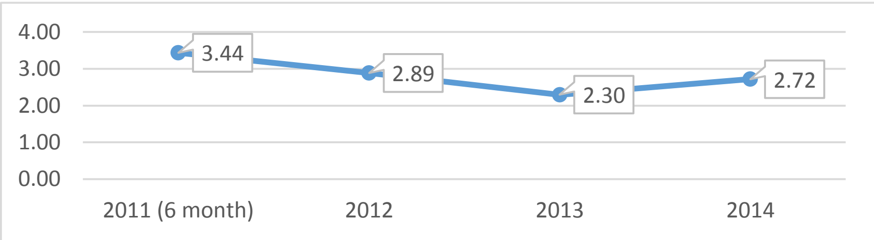


Source: Own-compilation

It can be seen at the figure 3.3, that spin-off had almost 5 times more assets than liabilities in 2011, mostly because of the parent company capital contribution in the size of 82,2 million $ due to the spin-off transaction. From 2011 to 2013 possible to see a decline in current ratio, which connected with increase in current liabilities. In 2014 current ratio again started to increase, mostly because of decrease in amount of accounts payable. Despite those fact that spin-off can easily cover all its current liabilities, it still needs to make more efficient use of its current assets as majority of current assets composed from cash and cash equivalents.

b) Cash ratio

Figure 3.4 – Cash ratio of energy spin-off (formula 3.2)



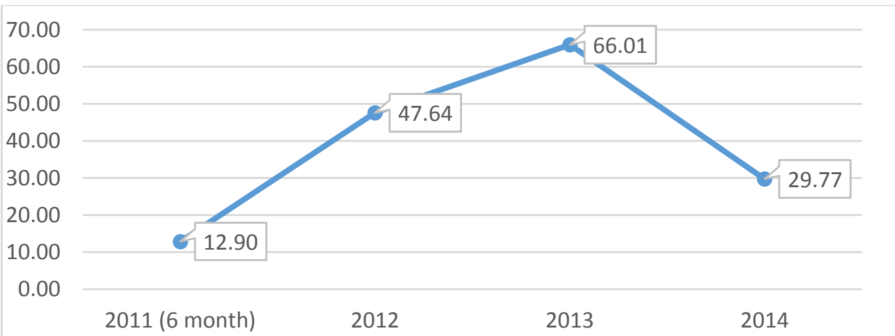
Source: Own-compilation

At the figure 3.4, it is possible to see that spin-off during all years has large amount of cash on balance sheet if compare to standard 1:1, indicated by Bragg (2002). According to this fact, spin-off can use cash for purchase of marketable securities and make investments into other companies for higher shareholder return generation.

3.3.2 Activity ratios analysis

a) Inventory turnover ratio and inventory turn-days ratio

Figure 3.5 – Inventory turnover ratio of energy spin-off (formula 3.3)



Source: Own-compilation

As it can be seen at the figure 3.5 from 2011 to 2013 inventory turnover ratio increased. In 2014 it is possible to see a decrease of ratio for 36, 24 points in compare with 2013. Also in the table, 4.8 can be seen increase in the number of days that is necessary in order to turn inventory in cash on average across the year from 5, 5 in 2013 to 12, 2 in 2014. That increase in days and decrease in times of the ratio in 2014 mean that inventory became less liquid and company had overstock, the reason of which could be inefficient management. Inventory turn-days ratio indicators introduced in the table 3.9 below:

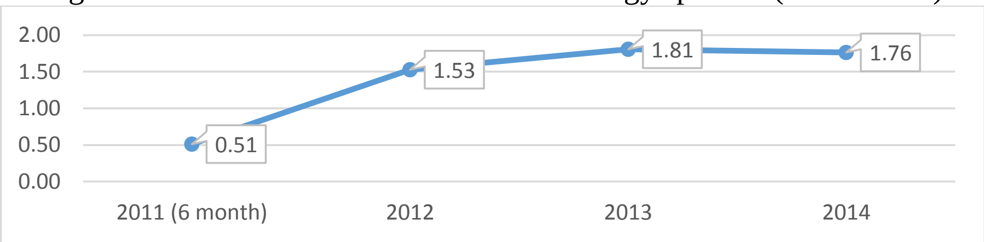
Table 3.9 – Inventory turn-days ratio of energy spin-off (formula 3.4)

Name of the company	2011	2012	2013	2014
Energy spin-off	14,3	7,7	5,5	12,2

Source: Own-compilation

b) Total asset turnover ratio

Figure 3.6 – Total asset turnover ratio of energy spin-off (formula 3.5)

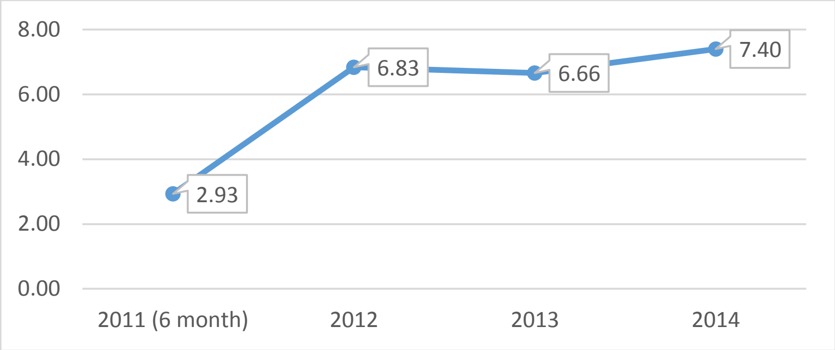


Source: Own-compilation

As it can be seen from the figure 3.6, it occurred increase in ratio indicators from 2011 to 2013 but in 2014 the ratio showed a little decline. For every dollar that was invested in assets spin-off generated from 0, 51 $ in 2011 to 1, 76 in 2014 of revenues during the 2011 to 2014 years. Increase in ratio form 2011 to 2013 may mean that company becoming efficient at that period and was necessary to make investment for further growth. Decline from 2013 to 2014 can be a result of company’s inefficient use of cash and existence of inventory that was not sold.

c) Accounts receivable turnover ratio and average collection period

Figure 3.7 – Accounts receivable turnover ratio of energy spin-off (formula 3.6)



Source: Own-compilation

As it can be seen at the figure 3.7, from 2012 until 2014 accounts receivable turnover ratio slightly increased. The ratio of 2, 93 in 2011 can be explained by taking into account only 6 full month of the year. The ratio of 7, 40 means that the average dollar volume of accounts receivable are collected 7, 40 times during the 2014 year. And it means that company need a little less time to wait between sales and money collection in compare with 2012 year.

With the help of average collection period it is possible to see that in 2012 company was necessary to wait in average 53,4 days, in 2014 due to increase of accounts receivable turnover ratio the number of days decrease slightly and became 49, 3. Average collection period in days introduced in the table 3.10 below:

Table 3.10 - Average collection period of energy spin-off (formula 3.7)

Name of the company	2011	2012	2013	2014
Energy spin-off	62,8	53,4	54,8	49,3

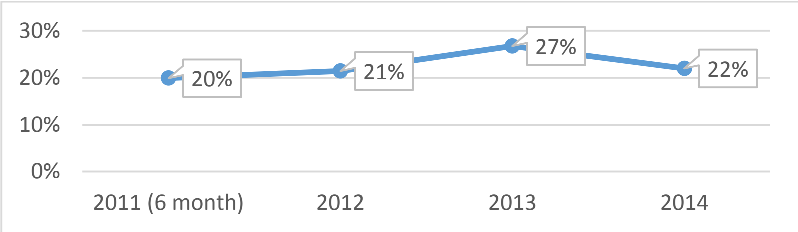
Source: Own-compilation

Average collection period for energy spin-off across all years are too big, that means that spin-off is ineffective in collecting accounts receivables. According to report of Thomson Reuters (2008) ,which states that general average collection period should be more than 10-15 days, energy spin-off should make a decrease in the number of days in order to increase cash flow, which can be used for future investment activities.

3.3.3 Leverage ratios analysis

a) Debt ratio

Figure 3.8 – Debt ratio of energy spin-off (formula 3.8)

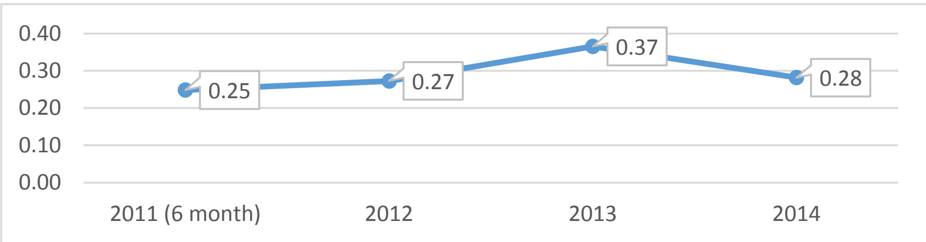


Source: Own-compilation

At the figure 3.8 introduced indicators of debt ratios, which were increasing from 2011 till 2013, but from 2013 till 2014 ratio decreased for 5 points. .According to the obtained data it is possible to say that company has strong enough financial position, because during four years it has stable indicators that show existence of almost five times more assets than liabilities.

b) Debt to equity ratio indicators

Figure 3.9 – Debt to equity ratio of energy spin-off (formula 3.9)



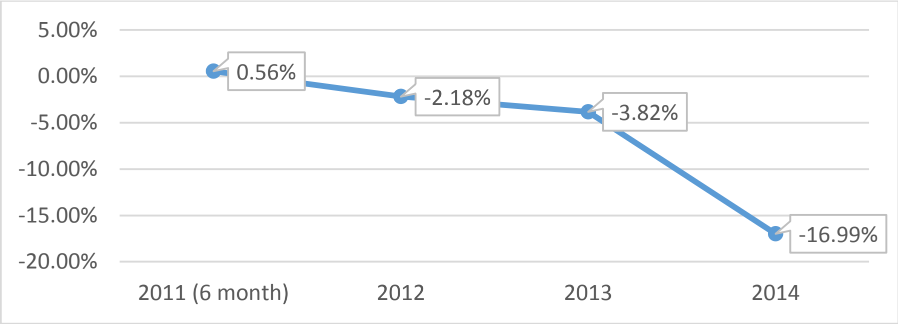
Source: Own-compilation

As it can be seen from the figure 3.9 spin-off has ratio less than 1, which means according to report of Thomson Reuters (2008), that company has more equity for assets financing provided by shareholders than by creditors. For example in 2014 creditors provided 28 cents of equity for assets financing for each $ of shareholder's equity. Low debt-to-equity ratio indicates financial security for spin-off and low risk for creditors.

3.3.4 Profitability ratios analysis

a) Return on Assets (ROA)

Figure 3.10 – Return on assets of energy spin-off (formula 3.10)

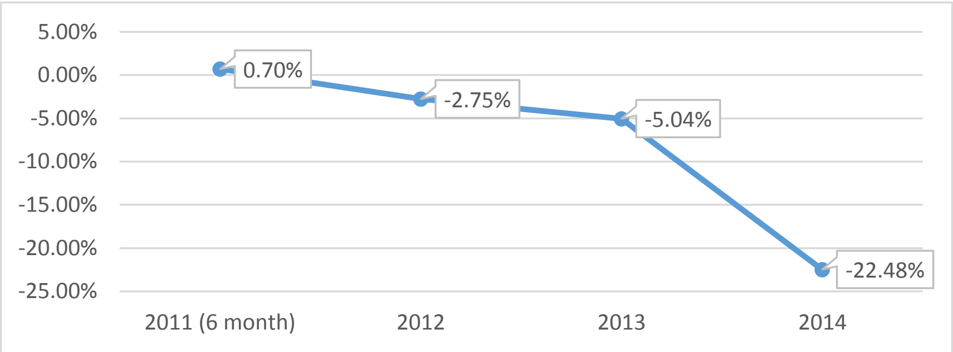


Source: Own-compilation

At the figure 3.10 possible, to see that from 2011 till 2014 years return on assets ratio had been decreasing. Return on assets estimates how well company uses its assets to generate profit. Negative ratio means that spin-off not effectively managing its assets in order to produce net income.

b) Return on equity (ROE)

Figure 3.11 - Return on equity (ROE) of energy spin-off (formula 3.11)

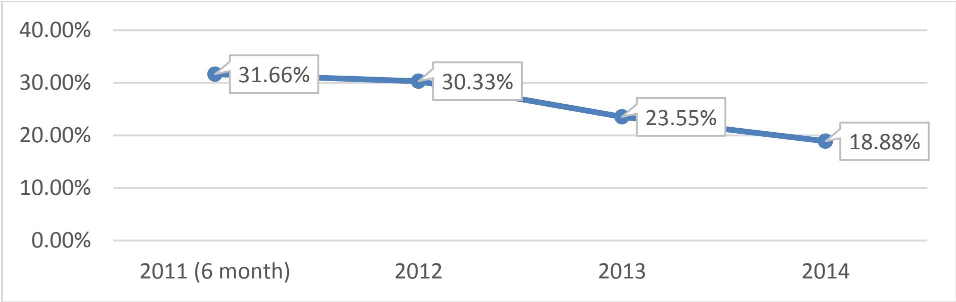


Source: Own-compilation

It is possible to see that spin-off faced the loss during 2012 -2014 years. It can be seen that magnitude of value between 2013 and 2014 is rather high (-16, 54%). The reason of which can be the result that company faces the losses for 3 years already and as the result, equity capital decreases with the each new loss occurred.

c) Gross profit margin ratio

Figure 3.12 – Gross profit margin ratio of energy spin-off (formula 3.12)

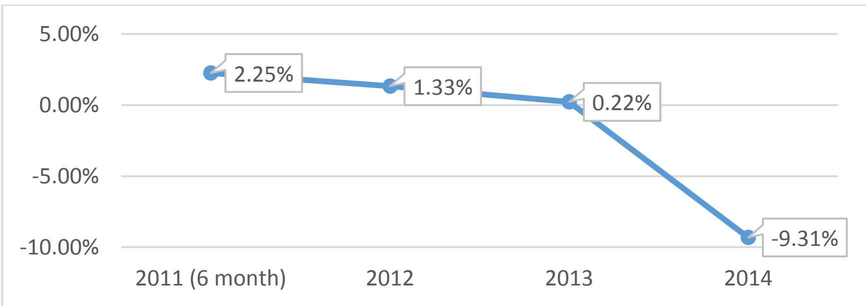


Source: Own-compilation

At the figure 3.12 showed that from 2011 to 2014 the gross profit margin ratio indicators decreased. The reason for this is high direct costs of revenues. Spin-off direct cost of revenues mostly consist from cost for gas and electricity purchased for resale, scheduling costs, pipeline costs, changes in the fair value of future contracts and others. The decrease of ratio form 2012 till 2013 can be explained by increase in revenue for 22% and increase in direct cost of revenues for 34%. In 2014 gross margin decreased for 4, 67 % because of high direct costs in compare with revenue. Increase in direct cost of revenues in 2014 was connected with high cost of wholesale resources at the market and with acquisition of new company in 2013.

d) Operating profit margin ratio

Figure 3.13 – Operating profit margin ratio of energy spin-off (formula 3.13)

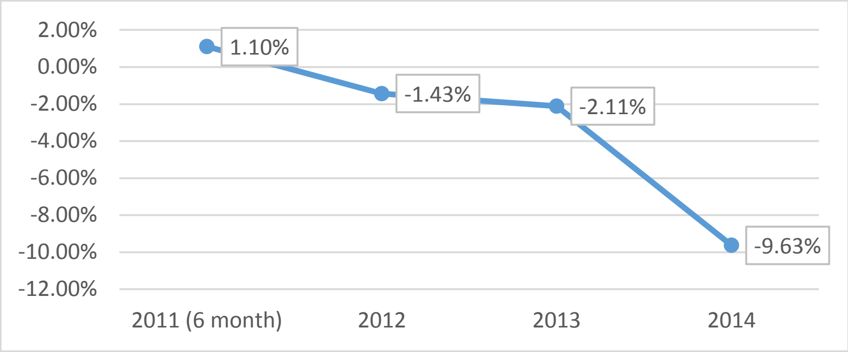


Source: Own-compilation

As it can be seen from the figure 3.13 margin was decreasing from 2011 but became negative only in 2014. The reasons of such a decrease in operating profit margin ratio from 2013 to 2014 were: decrease of revenue in 2014 in compare to 2013 and increase in direct cost of revenues and operating expenses (especially selling, general and administrative).

e) Net profit margin ratio

Figure 3.14 – Net profit margin ratio of energy spin-off (formula 3.1)



Source: Own-compilation

It is possible to see from the figure 3.14 that form 2011 until 2014 occurred significant decrease in net profit margin ratio. The main reason of such a decrease was high direct cost of revenues, which were not so much less than total revenues and high operating expenses, which in 2014 even were bigger than gross profit. Operating expenses that were in group of selling, general and administrative (advertising expenses, stock-based compensation, repairs and maintenance) composed majority of all expenses of the energy spin-off. From 2011 until 2013 notices increase in amount of revenue and its direct costs. In compare with 2013 in 2014 occurred decline of total revenue for 2%. The reason of such a decline were decline in sales of electricity and natural gas sales. The main reason of direct cost of revenues increase in 2014 were changes in the weather. Unexpectedly cold weather in the first quarter of 2014 faced company with a problem of buying and delivering resources from the wholesale market, which suffered of shortage of resources because of increased demand. Increased demand at the wholesale market, where spin-off generally bought its electricity and natural gas, caused increase in wholesale price. Increase of the wholesale electricity costs made spin-off to increase its retail price too. However, this increase in retail price brought spin-off complaints from its customers and it have to make a 5 million $ rebates to the affected customers.

The increase in operating expenses, in particular, selling, general and administrative, that occurred in 2014 in compare with 2013 were mostly connected with acquisition of new company in 2013. The most of expenses were connected with increases in payroll, computer license software purchasing, expenses for consulting and professional fees, customer acquisition cost increase.

3.3.5 Summary of energy spin-off performance indicators

During analysis of performance of the energy spin-off were analyzed four groups of financial ratios, which are: liquidity, activity, leverage and profitability. From liquidity ratios was estimated current and cash ratios.

By analyzing current ratio of energy spin-off was mentioned, that current ratio twice bigger than the standard and major part of it consist of cash and cash equivalents. This means that company need to use more effectively its current assets, for example make investments in the other companies and get interest percent in order not to lose cash value.

In compare with 2010 in 2014 possible to see a decrease in cash and cash equivalents for 0, 72 points. But in general amounts of cash and cash equivalents that spin-off has almost 2-3 times higher than it in standard. That means that spin-off need to use its cash in a more efficient way for not losing its value. It can be suggested to make investments in order to increase shareholder return. Possible to propose that spin-off can hold big amounts of cash on balance sheet for making further acquisition activities.

Among activity ratios were evaluated: inventory turnover and inventory turn-days ratios, total asset turnover ratio, accounts receivables and average collection period.

While analyzing inventory turnover ratio was found that in 2011 in compare with 2014 it increased for almost 17 %, which automatically led to decrease the number of average days from 14 to 12. The reason of a decrease in inventory turnover ratio in 2014 in compare with 2013 for 36,24 times and increase in inventory turn-days for 7, were complicated conditions on the market where spin-off operated.

As it was found total asset turnover ratio increased from 2010 till 2013. In compare with 2010 this ratio increased in 2014 for 1,25 points. In general from 2011 to 2013 was noticed slight increase in ratio and therefore efficient use of assets. Decline in 2014 in compare with 2014 for 5 points was connected with unfavorable conditions on the market, which influence decrease in spin-off revenue and income.

In compare with 2011 in 2014 accounts receivable turnover ratio increased for 4, 47 times. That means that average collection period decreased for 13, 5 days. Despite the fact that in compare with the rest years average collection period decrease , company still need to minimize the number of days in average for waiting outstanding receivables in order to improve it overall efficiency.

Among leverage ratios were chose for analysis: debt ratio and debt-to-equity ratio. What concerns debt ratio in compare to 2011 in 2014 it increased not significantly for 2 %. In the whole it is can be seen that in 2014 spin-off had only 22% of assets financed by debt. Low level of debt can be ambiguous, from one side company can be in a good position that it can attract additional capital for further investments and expansion, but from the other side creditors can be not sure about the spin-offs future solvency ability, that's why spin-off might have problems with taking more loans than it had.

In debt-to-equity ratio indicators did not occurred major changes while compare period from 2011 till 2014. Amount of shareholder's equity that is used for financing assets is bigger than equity given by creditors.

And among profitability ratios were chosen for analysis: return on assets, return on equity, gross profit margin, operating profit margin and net profit margin ratios. From 2011 till 2014 return on assets ratio decreased for 17,55 %. Such a decrease occurred because of significant decrease in net income since 2012 till 2014.

In compare with 2011 return on equity in 2014 decreased for 23, 18 %. Such a decrease was a consequence of a net income loss that company met in 2012 and which continued to increase till 2014.

Gross profit margin ratio decreased form 2011 till 2014 for 12,78%. Which occurred because of high direct costs of revenues, in particular of high expenditures for cost of electricity and natural gas for resale.

Operating profit margin ratio decreased for 11, 56 % in 2014 in compare to 2011. The reasons of such a decrease ware in direct cost of revenue increase and in operating expenses increase. The largest decrease in operating profit margin ratio occurred between 2013 and 2014 for 9,53% and was caused by unpredictable changes in the market conditions , where spin-off operated and by increase in spin-off expenses for the acquired company.

Net profit margin decrease in 2014 for 10, 73 % in compare to 2011. The main reasons of such a decrease were increase in direct costs of revenues and operating expenses, mainly for 7,52 % in 2013-2014.

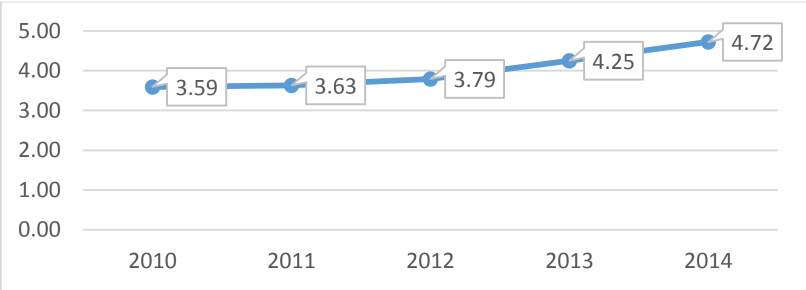
To sum up, it has been found that since its separation from the parent company energy spin-off has not generate any income instead it has consistently been making loss. However, the loss seems to be because of increasing direct costs of revenue that has highly affected gross profit, and operating expenditure, which leads to the decrease of net income.

3.4 Analysis of financial services spin-off

3.4.1 Liquidity ratios analysis

a) Current ratio

Figure 3.15 – Current ratio of financial services spin-off (formula 3.1)



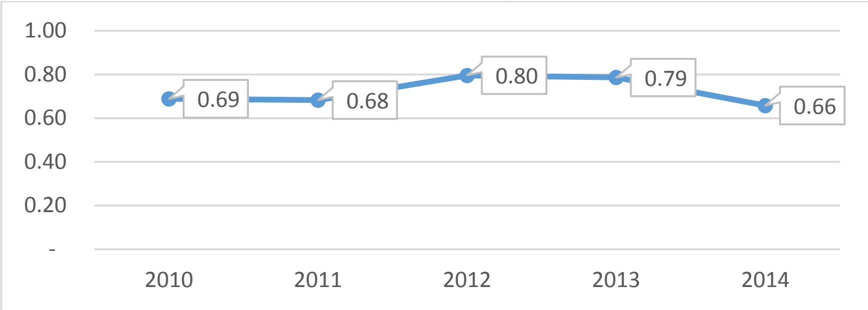
Source: Own-compilation

As it can be seen at the figure 3.15 spin-off has for almost 4-5 times more current assets than current liabilities. And it is possible to see that from 2010 year this ratio only continue to increase. From balance sheet was found that investment in debt and equity securities take majority of spin-off current assets through all the years. For example, in 2014 debt and equity securities composed 95, 5% of spin-off current assets on the balance sheet. Marketable securities and cash introduce the liquid assets of the company. In the report of spin-off written that publicly traded debt and equity securities are 'available-for-sale'. Marketable securities 'available for sale' introduce temporary investments, which spin-off make to other companies and its own subsidiaries in order to increase shareholder wealth. Based on the obtain data possible to propose that spin-off rather effective use its current assets. In order not to lose the value of the money just leaving them in cash, spin-off made investments in its subsidiaries and other companies with the aim to make an increase in shareholder return.

3.4.2 Activity ratios analysis

a) Total asset turnover ratio

Figure 3.16 – Total asset turnover ratio of financial services spin-off (formula 3.5)

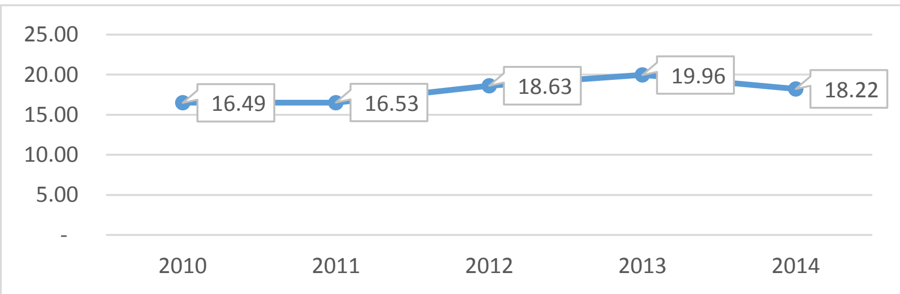


Source: Own-compilation

From the figure 3.16 can be seen that total asset turnover ratio in 2010, 2011 and 2014 almost at the same level. The ratio indicators that were found in 2012 and 2013 year the biggest, that means that the spin-off made 0, 80 $ and 0,79 $ per year for every dollar of assets that company owns. Decline in 2014 can be explained by decrease in revenue for 6% , in particular agent premiums, in compare with 2013 and increase in total assets for 17% mostly because of cash and cash equivalents increase and debt securities investment increase. Company should try to use its assets in a more efficient way.

b) Accounts receivable turnover ratio and average collection period

Figure 3.17 – Accounts receivable turnover ratio of financial services spin-off (formula 3.6)



Source: Own-compilation

As it can be seen from the figure 3.17, the highest ratio of accounts receivable is noticed in 2013. The ratios indicate speed with which accounts receivable collected in average during the year, in case of 2013 it is 19, 96 times. The highest ratio means less days that is necessary to wait for the outstanding receivables, which is in case of 2013 is 18, 29. Below is introduced table 3.11 with average collection period that is necessary for collection of receivables.

Table 3.11 – Average collection period of financial services spin-off (formula 3.7)

Name of spin-off	2010	2011	2012	2013	2014
Financial service spin-off	22,13	22,09	19,59	18,29	20,03

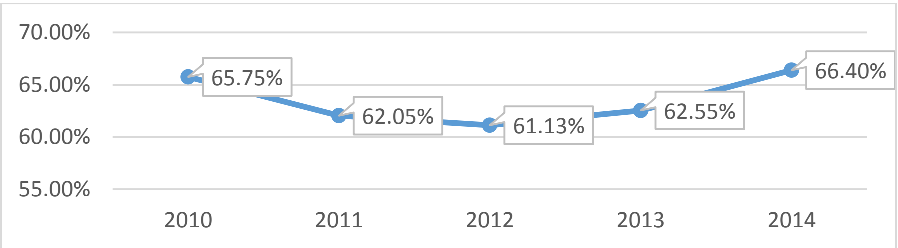
Source: Own-compilation

Average collection period for collecting outstanding receivables in the financial services spin-off is established within 30 days by spin-off management. It is possible to see from the table that spin-off did not have problems with outstanding receivables during the considering period of time, as maximum of days that spin-off was waiting for payment during 2010-2014 years are 22 days.

3.4.3 Leverage ratios analysis

a) Debt ratio

Figure 3.18 – Debt ratio of financial services spin-off (formula 3.8)

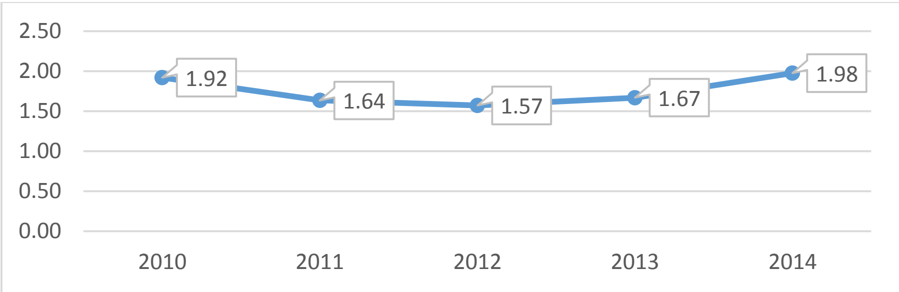


Source: Own-compilation

As it can be seen from the figure 3.18 spin-off had a positive tendency of debt decrease from 2010 until 2012. In 2013 it increased and overcame debt ratio of 2010. Debt ratio of 66, 40 % means that spin-off liabilities are 66, 40% of its total assets. In other words spin-off would necessary to sell 66, 40% of its assets in order to pay it liabilities. Company should think about the methods of decreasing its debt, as in 2014 spin-off had more than half of its assets financed through debts. As the higher percent of debt, the higher risk of business and in the future company may have problem in obtaining loans for new projects.

b) Debt to equity ratio

Figure 3.19 – Debt to equity of financial services spin-off (formula 3.9)



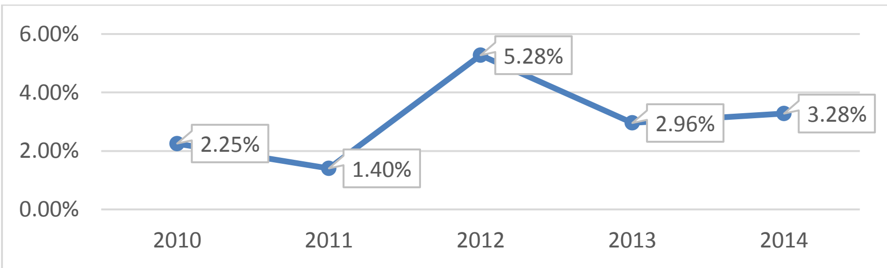
Source: Own-compilation

Debt to equity shows financial leverage of the company, pointing how much debt and how much equity company uses for financing its assets. Analyzing figure 3.19 it is possible to say that the spin-off has more equity for assets financing provided by creditors than by shareholders. In 2010 and 2014 spin-off had equity for asset financing, provided by creditors almost twice bigger than shareholders equity.

3.4.4 Profitability ratios analysis

a) Return on assets (ROA)

Figure 3.20 – Return on assets of financial services spin-off (formula 3.10)

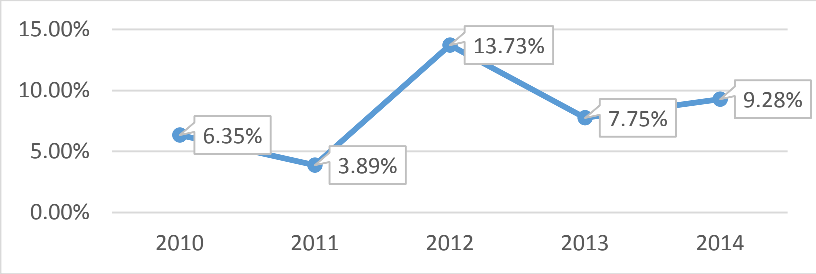


Source: Own-compilation

According to the figure 3.20 from 2010 to 2011 profitability of spin-off decreased because of   net income decrease for 39%. In 2011 return on assets started to grow, because of net income increase for almost 4 times in compare with 2010. In 2012 ROA took it maximum and the went down in 2013, because of net income decrease for 38%. In 2013 till 2014 ROA grew for 0, 32%. Return on assets indicates that in 2012 spin-off earned 0,05 cents on each dollar of assets. The higher the return on assets the more profitable business. In the period from 2010-2014, in 2012 spin-off got more profit on each dollar of assets.

b) **Return on equity (ROE)**

Figure 3.21 – Return on equity of financial services spin-off (formula 3.11)

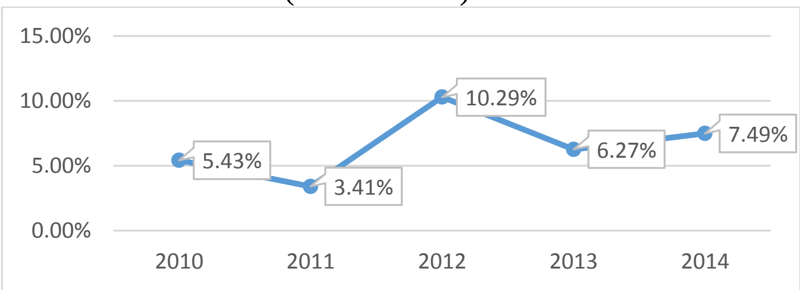


Source: Own-compilation

At the figure 3.21 is possible to see that in the 2012 company was most efficient in generating income on new investment. A low ratio in 2011 can be explained by the decrease in revenues for 2 % and decrease in net income for 39% if compare to 2010. In 2013 net income decrease for 38% in compare to 2012, that influenced return on equity ratio decrease. From 2013 till 2014 possible to see an increase for 1,43 % in the ratio as a result of increase in spin-off net income for 25%.

c) **Operating profit margin ratio**

Figure 3.22 – Operating profit margin ratio of financial services spin-off (formula 3.13)

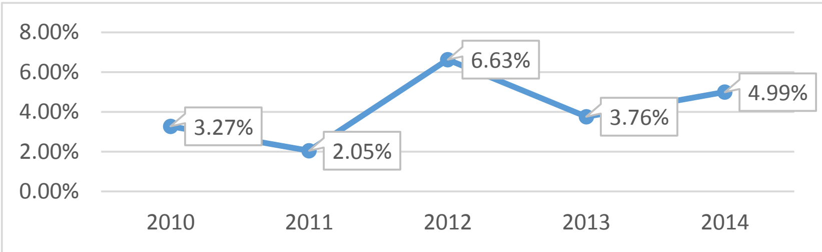


Source: Own-compilation

As it possible to see at the figure 3.22 indicators of operating profit margin ratio were not stable and had been fluctuating across the 2010 and 2014 years. Operating profit of 7, 49 % means that net income of 0,07 $ was made on each dollar of sales. The biggest ratio of operating profit can be seen in 2012. The main sources of revenues for the spin-off across all years were direct premiums (revenues from home warranty contracts and revenues from property and casualty insurance policies), escrow fees and agent premiums. The main sources of spin-off expenses were personnel costs and premiums retained by agents. A decrease in operating profit for 2,02 % in 2011 was connected with decrease in revenues, in particular, in agent premiums. Increase in operating profit in 2012 was connected with increase of revenue for 16% in compare to 2011. Spin-off is necessary to control its operating costs more efficiently in order to make operating margin higher.

d) Net profit margin ratio

Figure 3.23 – Net profit margin ratio of financial services spin-off (formula 3.14)



Source: Own-compilation

During the 2014 year spin-off acquired 4 companies following its growth strategy and expand its presence on key markets. Decrease in revenues in 2011 in compare with 2010 caused decrease of net profit for 1, 22 % as it can be seen from figure 3.23. More revenues that were gained in 2012 in compare with 2011 increase net profit for 4,58%. Decrease in 2013 in compare with 2012 was connected with increased expenses. Increase in 2014 for 1, 23% occurred because of decrease in operating expenses for 7% in compare with 2013. In order to increase net income spin-off need to increase revenues and decrease operating expenses.

3.4.5 Summary of financial service spin-off indicators

During analysis of performance of the financial service spin-off were analyzed four groups of financial ratios, which are: liquidity, activity, leverage and profitability. From liquidity ratios was estimated current ratio. According to Bragg (2002) the standard for current ratio is 2:1, spin-off has for almost 4-5 times more assets than liabilities, and from 2010 this ratio continue to increase. Marketable securities compose 95,5 % of spin-off current assets, which means that company has no problems with covering liabilities and use debt and equity securities like investments in order to obtain greater shareholder return .

Among activity ratios were researched: total asset turnover ratio, accounts receivables and average collection period. Total asset turnover in 2014 became less than it was 2010 for 3 %. In compare with 2013 total asset turnover decrease in 2014 for 13%. The reason of this was increase in total asset for 17% and decrease in revenues for 6%. Decrease in revenue was caused by the negative changes in market conditions, where company operates. For more efficient work, spin-off should found how to generate more revenue with use of less assets in order to increase its total assets turnover.

Account receivables has increased in 2014 for 1, 73 times in compare with 2010. That means that company's average collection period decrease for 2 days and company was need to wait in average for payment 2 days less in 2014.

Among leverage ratios were chose for analysis: debt ratio and debt-to-equity ratio. From 2010 till 2014 debt ratio increased only for 0, 65 %, that means that no major changes happen in spin-off debt ratio since separation. Company should think about the methods of decreasing its debt, as in 2014 spin-off had more than half of its assets financed through debts.

Debt-to-equity ratio also did not change much if compare 2010 and 2014, only for 3% became bigger in 2014. But spin-off can think about ways of decreasing percent of equity for assets financing given by creditors and increasing amount of shareholders equity.

And among profitability ratios were chosen for analysis: return on assets, return on equity, operating profit margin and net profit margin. ROA, ROE have fluctuating trend because the same behavior had net income during 2010-2014 years. From 2010 till 2014 ROA ratios changes for a 1,03 %, that show not significant changes form the first year of separation and the fourth. What concerns ROE if compare 2010 and 2014, ROE increased for 2,93 % . Operating profit margin increased for 2, 06 % and net profit margin increased for 1,52 during 2010-2014 years. In order to increase net profit margin and operating profit margin ratio, spin-off should increase revenues and decrease operating costs.

Generally, it is possible to say that from the year of separation spin-off performance has been improving slightly. According to the company's reports, financial spin-off have plans to become one of the leaders at the market. As one of strategies towards achieving this goal spin-off will continue to make targeted acquisitions and investments in its subsidiaries and other companies.

CONCLUSION

This part of the thesis underlines key finding of the work, limitations and shows possible areas of future research.

1. General conclusion

Main idea of this research was to investigate influence of parent company on spin-off performance. Among the research questions that were defined in order to achieve goal were question about the reasons of spin-of creation, question about types of spin-off and parent-spin-off relationships in post-spin-off period, question about resource and knowledge base that transforms to spin-off from parent, and question about performance evaluation of spin-off in post-spin-off period.

In order to answer research questions was used mix-method of data analysis. Qualitative method was used in the form of open-ended questionnaires. Open-ended questionnaires were sent by e-mail to respondents, which hold administrative and managerial positions in the spin-off companies of USA and Canada. Quantitative analysis was expressed in the performance evaluation of financial service and energy spin-off.

In the process of open-ended questionnaires analysis was found out that from 7 respondents that answered on open-ended questionnaires and were taken for analysis: 4 were restructuring-driven spin-offs, 2 technology spin-offs and 1 REIT spin-off. 57,1 % of respondents were found in the introduction stage of the market., 28,6 % in the growth stage and 14,3 % in maturity stage.

For majority of respondents (42, 86%) the main factor of spin-off creation was “shareholder value maximization’. Among the most popular drivers of spin-off creation based on respondents answers were ‘corporate focus increase and risk minimization’ (33, 6 %) and ‘conflict of interest’ (11,1%). On the overall, drivers of spin-off creation varies in literature as in the answers of respondents. Among the common drivers that were found in the studied literature and that respondents mentioned were, for example, tax avoidance, risk minimization, different capital requirements, attraction of investors, focus on different markets, equity as an acquisition currency, liabilities reallocation and cost reduction. Drivers of spin-off creation depends on variety of factors, for example, industry where parent and spin-off operate, financial position of the parent company, parent company business strategy and others.

57, 2 % of respondents indicated that parent company is 'collaborator' for spin-off. Despite the fact that number of authors, for example, Canina & Klein (1998), Tübke (2004) and Chemmanur & Paeglis (2000) state that spin-off after separation from parent become independent entity, in fact it is not always so. As it was found out from the respondents answers, 3 of 7 spin-offs were dependent on their parents. Dependence on parent was expressed in the type of parent-spin-off relations in a post-spin-off period, for example, when parent is a manager of spin-off, parent is supplier of resource and personnel for spin-off and when parent makes distributions of spin-off production for free.

Majority of respondents indicated 'resource allocation' (30% of respondents) and 'intense competition' (20% of respondents) as the main challenges of spin-off creation. Among the other changes that were mentioned by respondents: market volume decline, acquisition target, necessity of investor education, sale of products through parent company and dismissal of employees.

What concerns the changes that occurred in spin-off performance after separation from parent, majority of respondents (40%) indicated category "became more focused". Spin-off could managed to become more focused on value creation of the company, on increasing cash distributions and to increase focus on particular projects. 20% of respondents answered that separation helped spin-off to increase its value at the market and decrease its costs.

According to respondents answers were identified four groups of resources that parent company transferred to spin-off, which are financial resource, human resources, physical resource and knowledge. Majority of respondents indicate that under financial resources they were given cash form parent. Under category of human resources were transferred from parent companies employees and management. Only one respondent indicated that he was given product line from parent, which goes under the group of physical resources. Almost all respondents indicate different types of knowledge that were given by parent, among them managerial, technical, technological, marketing, production and intellectual property.

All respondents mentioned future growth prospects, while having different plans of how they will achieve it. Among the future growth prospect were mentioned business optimization and business construction, development and launch of new technologies, geographic scope spreading and market share increase, investments making.

Based on the financial ratios performance analysis of energy spin-off was found out that spin-off since the year of separation continue to generate net loss, despite those fact that parent company of spin-off still shares with it resource and personnel. The loss existence seems to be because of increasing direct costs of revenue, that lead to the decrease of gross profit and rather high operating expenses, which lead to the income decrease. However, while analyzing operating cash flow was found out that half of operating expenses comprise investment in research and development, which means that spin-off, puts money in new technology creation with the aim to make production of products more efficient. Aa recommendation, possible to say that energy spin-off need to reduce its direct cost of revenues and operating expenses in order not to increase more its net loss and not decrease its equity. Company should use its cash in a more efficient way, by making investments in other companies and in its own subsidiaries with the aim to increase shareholders return.

Based on financial ratios performance analysis of financial services spin-off was found out that spin-off performance had been improving slightly if compare first year of separation with the last available. Financial service spin-off was created from the parent company with similar financial business. Spin-off creation was accompanied by employees and cash transformation from the parent company. According to the financial spin-off's statement of CEO was found out that spin-off have plans to become one of the leaders in the market. As one of the strategies towards achieving this goal spin-off will continue to make targeted acquisitions and investments in its subsidiaries and other companies.

Despite those fact that spin-off considered to be independent form of corporate divestiture, parent company influence still will be within spin-off, as in the period of separation subsidiary takes to spin-off all relevant to it resources and knowledge and during the post-spin-off period, spin-off, in most cases, continues to obtain parent company's help.

2. Limitations

While writing this master thesis were found some limitations. With the aim to find the answers on research questions of this work were used open-ended questionnaires. Questionnaires were used because there was no possibility to conduct interviews with administrative and managerial personnel from spin-off companies. Some of potential respondents refused to answer even open-ended questionnaires. Among the reasons of respondents refuses were strict policy of confidentiality and not availability of respondents that were in competence to answer given questions. The next disadvantage of using open-ended questionnaires is short, incomplete answers without possibility make further clarifications. As questionnaires were send by e-mail to the potential respondents, can exist chances of misinterpretation of questions by potential respondents. Survey used purposive sampling, which means that were selected potential respondents with definite criteria in order to provide details, which could enhance the level of understanding of parent company influence on spin-off performance. Sample of the study was restricted, just 7 respondents due to the reasons indicated above. What concerns financial ratio analysis there was found out rather hard to find companies within the same industry within the same years of separation and with availability of all data necessary for calculation ratios in their annual financial reports.

3. Areas for future research

Based on the results and limitations of the work, it is necessary to admit that for future research it will be interesting to investigate, what factors influence spin-off creation in different countries. For example, why in one countries such as USA and Canada this phenomenon is rather popular and information about spin-offs and their appearance is available for the public access, and in others, spin-off like a form of corporate restructuring is not popular and even not widely known.

For the future research about influence of the parent company on spin-off performance, will be very helpful to conduct in-depth interviews with not less than 25-30 professionals, working at spin-off companies. Will be very interesting also to investigate more in-depth existing post-spin-off relations of parent company and spin-off.

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APPENDICES

APPENDIX A – List of questions of open-ended questionnaires

1. What is the respondent position in the company?
2. What is the spin-off life cycle stage at the market?
3. What is the type of corporate spin-off?
4. What are the main reasons that motivated parent company to create spin-off?
5. What factors influence the choice of particularly spin-off creation and not the other form of corporate divestiture?
6. What are the challenges that spin-off faced after (during) separation from the parent company?
7. How can you describe spin-off relations with the parent company?
8. What kind of resources and knowledge parent company transferred (transferring) to spin-off?
9. What are the main sources of spin-off financial support?
10. What are the prospects for the spin-off development in the near future?
11. Any further comments regarding spin-off creation and management experience (lessons learnt, ideas that will be helpful for newcomers)

APPENDIX B – Codes of interview

Code	Category	Index
Theme 4: Reaosns for spin-off creation		
Respondent 1		
Conflict of interest	Conflict of interest	1
Unclock and create shareholder value	Shareholder value maximization	2
Tax avoidance	Tax avoidance	3
Low business risk	Corporate focus increase and risk minimization	4
Respondent 2		
Different capital investments need for parent and spin-off	Different capital requarements	5
Focus on diffrerent from parent customers, operations, transactions	Corporate focus increase and risk minimization	4
Respondent 3		
Creation of shareholder value	Shareholder value maximization	2
Not core to the parent company business	Corporate focus increase and risk minimization	4
Respondent 4		
Was designed to appeal investors, seeking income and growth	Attraction of investors	6
Permanent capital base as currency in acquisitions	Equity as an acquisition currency	7
Respondent 5		
Focus on different markets	Corporate focus increase and risk minimization	4
Respondent 6		
Different speed of business of parent and spin-off	Minimization of bureaucracy	8
Opportunities on different markets	Corporate focus increase and risk minimization	4
Reallocation of liabilities on spin-off	Liabilities reallocation	9
Respondent 7		
Conflict of interest	Conflict of interest	1
Enchance the value of the company	Shareholder value maximization	2
Reduce expenditures	Cost reduction	10
Focus on flagship property	Corporate focus increase and risk minimization	4
Theme 5: Major factor that influence spin-off creation		
Respondent 1		
Most tax efficient	Tax efficient	1

Respondent 2		
Shareholder return	Shareholder value maximization	2
Respondent 3		
Shareholder return	Shareholder value maximization	2
Respondent 4		
Opportunity for investors to invest in spin-off	Clear investment opportunity	3
Respondent 5		
Different types of customers and clients	Focus on different markets	4
Respondent 6		
Differen speed of business of parent and spin-off	Minimization of bureaucracy	5
Respondent 7		
Shareholder benefit	Shareholder value maximization	2
Theme 6: Challenges of spin-off creation		
Respondent 1		
Intense competition	Intense competition	1
Respondent 2		
Market volume decline	Market volume decline	2
Competitive threats	Intense competition	1
Acquisition target	Acquisition target	3
Respondent 3		
Allocation of recources	Resource allocation	4
Respondent 4		
Investor education	Necessety of investor education	5
Respondent 5		
Uncertainty about level of resource allocation	Resource allocation	4
Respondent 6		
Sale of research products through parent copmay	Sale of products through parent company	6
Lack of resources	Resource allocation	4
Respondent 7		
Reduction of employees	Dismissal of employees	7
Theme 7: Post-spin-off relations with parent, parent is ...		
Respondet 1		

Competitors and collaborators at the different parts of the market	Not sure	1
Respondet 2		
Arm's length counterparty	Collaborator	2
Respondent 3		
Parent company shares resources and personnel with spin-off	Supplier	3
Responsent 4		
Manages work of spin-off	Manager	4
Respondent 5		
Work together on technology creation	Collaborator	2
Respondent 6		
Distributor for the research market	Distributor	5
Respondent 7		
Spin-off has an agreement with parent for using some part of its territory	Collaborator	3
Theme 8: Resources that were transferred from the parent company		
Respondent 1		
Cash	Financial resources	1
Employees	Human resources	2
Intellectual property, marketing knowledge	Knowledge	3
Respondent 2		
Cash	Financial resources	1
Employees	Human resources	2
Respondent 3		
Cash	Financial resources	1
Managerial knowledge	Knowledge	3
Personeel, management	Human resources	2
Respondent 4		
Spin-off is a partnership	Nothing	4
Respondent 5		
Intellectul property	Knowledge	3
Product line	Physical resources	5
Technologial and technial knowledge	Knowledge	3
Employees	Human resources	2
Response 6		

Cash	Financial resources	1
Employees	Human resources	2
Technological and managerial knowledge	Knowledge	3
Respondent 7		
Technical ,production knowledge,managerial knowledge	Knowledge	3
Individuals, management	Human resources	2
Theme 9: Changes in spin-off performance after separation		
Respondent 1		
Become more focused on value creation	Became more focused	1
Increased value of the spin-off and decrease expenditures	Enhanced value of the company and cost reduction	2
Respondent 2		
Got freedom to pursue growth strategies and allocate capital effectively	Got freedom in actions	3
Respondent 3		
Continues to improve	Continues to improve	4
Resondent 4		
Increse focus	Became more focused	1
Respondent 5		
No major changes	No major changes	5
Respondent 6		
Became focused on one thing	Became more focused	1
Could hire professionals	Could hire professional stuff	6
Respondent 7		
Became focused on flagship property	Became more focused	1
Reduced expenditures	Enhanced value of the company and cost reduction	2
Enchaced value of the company		
Theme 10: Prospects for spin-off development	**Growth of the company – main prospect for all**	
Respondent 1		
Further business optimization	Further business optimization	1
Respondent 2		
To become premier title insurance and settlement services company	To become a leader in the industry	2
Respondent 3		

Attraction of new customers and geographic scope expansion	Attraction of new customers and geographic scope broadening	3
Resondent 4		
Make investments	Make investments	4
Respondent 5		
Futher development of advanced tecnhologies	Development of new technologies	5
Respondent 6		
Technology breakthrough	Launch of new technology	6
Respondent 7		
Further business construction	Further business construction	7

APPENDIX C – Consolidated balance sheets of energy spin-off 2013-2014

December 31 (in thousands)	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 71,895**	$ 73,885
Restricted cash—short-term	**10,609**	14,429
Certificates of deposit	**4,669**	4,343
Trade accounts receivable, net of allowance for doubtful accounts of $227 at December 31, 2014 and $930 at December 31, 2013	**31,427**	42,926
Inventory	**11,166**	3,822
Prepaid expenses	**5,713**	2,930
Deferred income tax assets, net	**1,463**	840
Other current assets	**5,430**	2,917
TOTAL CURRENT ASSETS	**142,372**	146,092
Property and equipment, net	**1,902**	561
Goodwill	**3,663**	7,349
Restricted cash—long-term	**1,023**	1,127
Other assets	**3,968**	3,714
TOTAL ASSETS	**$ 152,928**	$ 158,843
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	**$ 14,881**	$ 25,302
Accrued expenses	**10,913**	9,856
Advances from customers	**403**	1,103
Income taxes payable	**543**	2,075
Due to	**542**	541
Energy hedging contracts	**4,003**	385
Other current liabilities	**797**	1,072
TOTAL CURRENT LIABILITIES	**32,082**	40,334
Other liabilities	**1,503**	2,169
TOTAL LIABILITIES	**33,585**	42,503
Commitments and contingencies		
EQUITY:		
stockholders' equity:		
Preferred stock, $.01 par value; authorized shares—10,000:		
Series 2012-A, designated shares—8,750; at liquidation preference, consisting of 2,322 and 1,917 shares issued and outstanding at December 31, 2014 and 2013, respectively	**19,743**	16,303
Class A common stock, $.01 par value; authorized shares—35,000; 1,574 shares issued and outstanding at December 31, 2014 and 2013	**16**	16
Class B common stock, $.01 par value; authorized shares—200,000; 23,178 and 19,755 shares issued and 22,984 and 19,696 shares outstanding at December 31, 2014 and 2013, respectively	**232**	198
Additional paid-in capital	**114,322**	82,791
Treasury stock, at cost, consisting of 194 and 59 shares of Class B common at December 31, 2014 and 2013, respectively	**(1,543)**	(473)
Accumulated other comprehensive income	**10**	745
(Accumulated deficit) retained earnings	**(7,759)**	21,552
Total stockholders' equity	**125,021**	121,132
Noncontrolling interests:		
Noncontrolling interests	**(4,678)**	(3,792)
Receivable for issuance of equity	**(1,000)**	(1,000)
Total noncontrolling interests	**(5,678)**	(4,792)
TOTAL EQUITY	**119,343**	116,340
TOTAL LIABILITIES AND EQUITY	**$ 152,928**	$ 158,843

APPENDIX D – Consolidated balance sheets of energy spin-off 2011-2012

December 31 (in thousands)	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 69,409	$102,220
Restricted cash	10,841	591
Certificates of deposit	2,205	—
Marketable securities	10,485	—
Trade accounts receivable, net of allowance for doubtful accounts of $130 at December 31, 2012 and 2011	40,932	26,212
Inventory	2,644	4,067
Prepaid expenses	3,315	3,953
Deferred income tax assets, net—current portion	599	3,081
Other current assets	771	1,626
TOTAL CURRENT ASSETS	141,201	141,750
Property and equipment, net	409	446
Goodwill	3,663	3,663
Deferred income tax assets, net—long-term portion	—	2,026
Other assets	5,033	2,309
TOTAL ASSETS	$150,306	$150,194
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Trade accounts payable	$ 20,641	$ 12,929
Accrued expenses	7,832	9,152
Advances from customers	1,472	2,253
Income taxes payable	1,244	2,624
Dividend payable	211	1,148
Due to	600	757
Other current liabilities	209	1,032
TOTAL CURRENT LIABILITIES	32,209	29,895

Continuum of APPENDIX D – Consolidated balance sheets of energy spin-off 2011-2012

December 31 (in thousands)	2012	2011
Commitments and contingencies		
EQUITY:		
Preferred stock, $.01 par value; authorized shares—10,000: Series 2012-A, designated shares—8,750; at liquidation preference, consisting of 1,605 and nil shares issued and outstanding at December 31, 2012 and 2011, respectively . . .	**13,639**	—
Class A common stock, $.01 par value; authorized shares—35,000; 1,574 shares issued and outstanding at December 31, 2012 and 2011	**16**	16
Class B common stock, $.01 par value; authorized shares—200,000; 19,827 and 21,382 shares issued and 19,800 and 21,382 shares outstanding at December 31, 2012 and 2011, respectively	**198**	214
Additional paid-in capital	**80,196**	92,321
Treasury stock, at cost, consisting of 27 and nil shares of Class B common at December 31, 2012 and 2011, respectively	**(204)**	—
Accumulated other comprehensive income (loss)	**270**	(137)
Retained earnings	**28,375**	34,924
Total stockholders' equity	**122,490**	127,338
Noncontrolling interests:		
Noncontrolling interests	**(3,393)**	(6,039)
Receivable for issuance of equity	**(1,000)**	(1,000)
Total noncontrolling interests	**(4,393)**	(7,039)
TOTAL EQUITY	**118,097**	120,299
TOTAL LIABILITIES AND EQUITY	**$150,306**	$150,194

APPENDIX E – Consolidated income statements of energy spin-off of 2012-2104

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	Year ended December 31, 2014	2013	2012
REVENUES:			
Electricity	**$ 214,511**	$ 216,668	$ 174,293
Natural gas	**57,868**	62,506	55,166
Other	**2,652**	—	—
Total revenues	**275,031**	279,174	229,459
Direct cost of revenues	**223,094**	213,416	159,872
GROSS PROFIT	**51,937**	65,758	69,587
OPERATING EXPENSES, (GAINS) AND LOSSES:			
Selling, general and administrative (i)	**61,372**	49,749	54,000
Bad debt	**310**	800	—
Research and development	**12,509**	11,389	9,365
Goodwill impairment	**3,562**	—	—
Adjustment to estimated contingent payments	**(206)**	—	—
Equity in the net loss of	**—**	3,194	3,175
(Loss) income from operations	**(25,610)**	626	3,047
Interest income	**469**	449	404
Financing fees	**(2,560)**	(3,217)	(2,913)
Other income (expense), net	**389**	(444)	(143)
(Loss) income before income taxes	**(27,312)**	(2,586)	395
Provision for income taxes	**(95)**	(2,755)	(2,930)
NET LOSS	**(27,407)**	(5,341)	(2,535)
Net loss (income) attributable to noncontrolling interests	**921**	(562)	(746)
NET LOSS ATTRIBUTABLE TO	**(26,486)**	(5,903)	(3,281)
Dividends on preferred stock	**(1,416)**	(1,223)	(211)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	**$ (27,902)**	$ (7,126)	$ (3,492)
Basic and diluted loss per share attributable to common stockholders:	**$ (1.31)**	$ (0.36)	$ (0.17)
Weighted-average number of shares used in calculation of basic and diluted loss per share	**21,256**	19,668	20,687
(i) Stock-based compensation included in selling, general and administrative expenses	**$ 10,758**	$ 4,180	$ 3,429

See accompanying notes to consolidated financial statements.

APPENDIX F – Consolidated income statements of energy spin-off of 2011-2013

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)	Year ended December 31, 2013	Year ended December 31, 2012	Five Months ended December 31, 2011	Year ended July 31, 2011	Five Months ended December 31, 2010 (Unaudited)
REVENUES	$ **279,174**	$ 229,459	$ 76,783	$ 196,018	$ 74,877
Direct cost of revenues	**213,416**	159,872	52,476	142,171	53,422
GROSS PROFIT	**65,758**	69,587	24,307	53,847	21,455
OPERATING EXPENSES AND LOSSES:					
Selling, general and administrative (i)	**49,749**	54,000	17,836	33,792	11,196
Bad debt	**800**	—	—	—	—
Research and development	**11,389**	9,365	2,648	7,843	3,045
Equity in the net loss	**3,194**	3,175	2,095	5,238	1,658
Income from operations	**626**	3,047	1,728	6,974	5,556
Interest income	**449**	404	44	92	53
Financing fees	**(3,217)**	(2,913)	(969)	(2,061)	(852)
Other (expense) income, net	**(444)**	(143)	(455)	(615)	340
(Loss) income before income taxes	**(2,586)**	395	348	4,390	5,097
Provision for income taxes	**(2,755)**	(2,930)	(616)	(6,945)	(4,181)
NET (LOSS) INCOME	**(5,341)**	(2,535)	(268)	(2,555)	916
Net (income) loss attributable to noncontrolling interests	**(562)**	(746)	1,115	4,185	815
NET (LOSS) INCOME ATTRIBUTABLE	**(5,903)**	(3,281)	847	1,630	1,731
Dividends on preferred stock	**(1,223)**	(211)	—	—	—
NET (LOSS) INCOME ATTRIBUTABLE COMMON STOCKHOLDERS	$ **(7,126)**	$ (3,492)	$ 847	$ 1,630	$ 1,731
(Loss) earnings per share attributable to common stockholders:					
Basic	$ **(0.36)**	$ (0.17)	$ 0.04	$ 0.08	$ 0.09
Diluted	$ **(0.36)**	$ (0.17)	$ 0.04	$ 0.07	$ 0.08
Weighted-average number of shares used in calculation of (loss) earnings per share					
Basic	**19,668**	20,687	20,366	20,365	20,365
Diluted	**19,668**	20,687	22,497	22,342	22,342

APPENDIX G – Consolidated statements of cash flows of energy spin-off 2012-2014

(in thousands)	Year ended December 31, 2014	2013	2012
OPERATING ACTIVITIES			
Net loss	$ **(27,407)**	$ (5,341)	$ (2,535)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation	**132**	110	124
Goodwill impairment	**3,562**	—	—
Gain on adjustment to estimated contingent payments	**(206)**	—	—
Deferred income taxes	**(622)**	(241)	4,508
Provision for doubtful accounts receivable	**310**	800	—
Stock-based compensation	**10,758**	4,180	3,429
Loss on disposal of property	—	37	—
Equity in the net loss	—	3,194	3,175
Change in assets and liabilities, net of effect of acquisitions:			
Restricted cash	**3,923**	(4,713)	(233)
Trade accounts receivable	**11,189**	(2,679)	(14,711)
Inventory	**(7,822)**	(700)	1,423
Prepaid expenses	**(2,306)**	(93)	638
Other current assets and other assets	**(2,664)**	(243)	(783)
Trade accounts payable, accrued expenses and other current liabilities	**(5,718)**	6,883	6,275
Advances from customers	**(700)**	(746)	(781)
Due to	**1**	(59)	(157)
Income taxes payable	**(1,532)**	831	(1,380)
Net cash (used in) provided by operating activities	**(19,102)**	1,220	(1,008)
INVESTING ACTIVITIES			
Capital expenditures	**(1,437)**	(313)	(91)
Capital contributions	—	(2,700)	(4,102)
Payment for acquisitions, net of cash acquired	**(1,138)**	(772)	—
Issuance of notes receivable	**(82)**	(750)	(650)
Purchase of licenses and security deposits	—	—	(175)
Purchases of certificates of deposit	**(4,655)**	(4,329)	(2,205)
Proceeds from maturities of certificates of deposit	**4,334**	2,205	—
Purchases of marketable securities	—	(3)	(11,484)
Proceeds from maturities of marketable securities	—	10,433	966
Net cash (used in) provided by investing activities	**(2,978)**	3,771	(17,741)
FINANCING ACTIVITIES			
Dividends paid	**(2,825)**	(1,131)	(4,205)
Proceeds from sales of Class B common stock to Howard S. Jonas	**24,552**	—	—
Distributions to noncontrolling interests	—	(42)	—
Proceeds from sales of equity of subsidiaries	—	422	—
Proceeds from exercise of stock options	**28**	93	5
Increase in restricted cash	—	—	(10,017)
Repurchases of common stock and Class B common stock	**(1,070)**	(269)	(204)
Net cash provided by (used in) financing activities	**20,685**	(927)	(14,421)
Effect of exchange rate changes on cash and cash equivalents	**(595)**	412	359
Net (decrease) increase in cash and cash equivalents	**(1,990)**	4,476	(32,811)
Cash and cash equivalents at beginning of period	**73,885**	69,409	102,220
Cash and cash equivalents at end of period	$ **71,895**	$ 73,885	$ 69,409

APPENDIX H – Consolidated statements of cash flows of energy spin-off of 2011-2013

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Year ended December 31, 2013	Year ended December 31, 2012	Five Months ended December 31, 2011	Year ended July 31, 2011	Five Months ended December 31, 2010 (Unaudited)
OPERATING ACTIVITIES					
Net (loss) income	$ (5,341)	$ (2,535)	$ (268)	$ (2,555)	$ 916
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:					
Depreciation	110	124	15	24	11
Deferred income taxes	(241)	4,508	(1,253)	(684)	(183)
Provision for doubtful accounts receivable	800	—	—	66	66
Stock-based compensation	4,180	3,429	630	751	800
Loss on disposal of property	37	—	—	—	—
Equity in the net loss	3,194	3,175	2,095	5,238	1,658
Change in assets and liabilities, net of effect of acquisitions:					
Restricted cash	(4,713)	(233)	—	—	—
Trade accounts receivable	(2,679)	(14,711)	1,276	1,007	676
Inventory	(700)	1,423	(1,311)	(61)	(816)
Prepaid expenses	(93)	638	(1,795)	(1,095)	(914)
Other current assets and other assets	(243)	(783)	(2,675)	156	(312)
Trade accounts payable, accrued expenses and other current liabilities	6,883	6,275	(1,595)	3,953	(1,518)
Advances from customers	(746)	(781)	806	(370)	558
Due to	(59)	(157)	757	—	—
Income taxes payable	831	(1,380)	961	(954)	(806)
Net cash provided by (used in) operating activities	1,220	(1,008)	(2,357)	5,476	136
INVESTING ACTIVITIES					
Capital expenditures	(313)	(91)	(134)	(151)	(45)
Capital contributions	(2,700)	(4,102)	(2,040)	(3,943)	(2,514)
Payment for acquisitions, net of cash acquired	(772)	—	—	—	—
(Increase) decrease in restricted cash	—	—	(428)	309	(37)
Issuance of notes receivable	(750)	(650)	—	—	—
Purchase of licenses and security deposits	—	(175)	—	—	—
Purchases of certificates of deposit	(4,329)	(2,205)	—	—	—
Proceeds from maturities of certificates of deposit	2,205	—	—	—	—
Purchases of marketable securities	(3)	(11,484)	—	—	—
Proceeds from maturities of marketable securities	10,433	966	—	—	—
Net cash provided by (used in) investing activities	3,771	(17,741)	(2,602)	(3,785)	(2,596)
FINANCING ACTIVITIES					
Capital contribution from in connection with the spin-off	—	—	82,183	—	—
Dividends paid	(1,131)	(4,205)	—	—	—
Funding provided by	—	—	1,120	571	10,098
Distributions to noncontrolling interests	(42)	—	—	—	—
Proceeds from sales of equity of subsidiaries	422	—	—	10,000	10,000
Repurchase of noncontrolling interests	—	—	—	(1,528)	—
Proceeds from exercise of stock options	93	5	—	—	—
Increase in restricted cash	—	(10,017)	—	—	—
Repurchases of common stock and Class B common stock	(269)	(204)	—	—	—
Net cash (used in) provided by financing activities	(927)	(14,421)	83,303	9,043	20,098
Effect of exchange rate changes on cash and cash equivalents	412	359	—	—	—
Net increase (decrease) in cash and cash equivalents	4,476	(32,811)	78,344	10,734	17,638
Cash and cash equivalents at beginning of period	69,409	102,220	23,876	13,142	13,142
Cash and cash equivalents at end of period	$ 73,885	$ 69,409	$ 102,220	$ 23,876	$ 30,780

APPENDIX I - Consolidated balance sheets of financial services spin-off of 2013-2014

CONSOLIDATED BALANCE SHEETS
(in thousands, except par values)

	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$1,190,080	$ 834,837
Accounts and accrued income receivable, less allowances of $34,662 and $31,831	276,610	236,895
Income taxes receivable	5,547	37,632
Investments:		
Deposits with banks	21,445	23,492
Debt securities, includes pledged securities of $120,742 and $123,956	3,450,252	2,819,817
Equity securities	402,412	358,043
Other long-term investments	159,783	183,976
	4,033,892	3,385,328
Loans receivable, net	—	73,755
Property and equipment, net	395,287	361,348
Title plants and other indexes	530,589	523,879
Deferred income taxes	19,712	27,478
Goodwill	959,945	846,026
Other intangible assets, net	55,812	46,347
Other assets	198,626	185,658
	$7,666,100	$6,559,183
LIABILITIES AND EQUITY		
Deposits	$2,332,714	$1,692,932
Accounts payable and accrued liabilities:		
Accounts payable	26,264	26,378
Personnel costs	184,994	183,344
Pension costs and other retirement plans	477,763	388,993
Other	165,084	197,097
	854,105	795,812
Deferred revenue	202,764	192,184
Reserve for known and incurred but not reported claims	1,011,780	1,018,365
Income taxes payable	6,228	—
Deferred income taxes	95,128	93,362
Notes and contracts payable	587,337	310,285
	5,090,056	4,102,940
Commitments and contingencies (Notes 18 and 20)		
Stockholders' equity:		
Preferred stock, $0.00001 par value; Authorized—500 shares; Outstanding—none	—	—
Common stock, $0.00001 par value; Authorized—300,000 shares; Outstanding—107,541 shares and 105,900 shares	1	1
Additional paid-in capital	2,109,712	2,077,828
Retained earnings	662,310	520,764
Accumulated other comprehensive loss	(199,106)	(145,544)
Total stockholders' equity	2,572,917	2,453,049
Noncontrolling interests	3,127	3,194
Total equity	2,576,044	2,456,243
	$7,666,100	$6,559,183

APPENDIX J - Consolidated balance sheets of financial services spin-off of 2011-2012

CONSOLIDATED BALANCE SHEETS
(in thousands, except par values)

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 627,208	$ 418,299
Accounts and accrued income receivable, less allowances of $30,917 and $30,504	259,779	227,847
Income taxes receivable	14,093	12,304
Investments:		
Deposits with savings and loan associations and banks	71,196	56,201
Debt securities, includes pledged securities of $105,849 and $149,922	2,651,881	2,201,911
Equity securities	197,920	184,000
Other long-term investments	192,563	200,805
	3,113,560	2,642,917
Loans receivable, net	107,352	139,191
Property and equipment, net	343,450	337,578
Title plants and other indexes	521,741	513,998
Deferred income taxes	—	39,617
Goodwill	845,857	818,420
Other intangible assets, net	57,095	59,994
Other assets	160,712	152,045
	$6,050,847	$5,362,210
LIABILITIES AND EQUITY		
Deposits	$1,411,193	$1,093,236
Accounts payable and accrued liabilities:		
Accounts payable	27,854	27,525
Personnel costs	176,478	137,024
Pension costs and other retirement plans	483,272	432,456
Other	132,899	130,802
	820,503	727,807
Due to CoreLogic, net	53,510	35,951
Deferred revenue	170,663	155,626
Reserve for known and incurred but not reported claims	976,462	1,014,676
Deferred income taxes	36,987	—
Notes and contracts payable	229,760	299,975
	3,699,078	3,327,271
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, $0.00001 par value, Authorized—500 shares; Outstanding—none	—	—
Common stock, $0.00001 par value:		
Authorized—300,000 shares; Outstanding—107,239 shares and 105,410 shares as of December 31, 2012 and 2011, respectively	1	1
Additional paid-in capital	2,111,605	2,081,242
Retained earnings	387,015	124,816
Accumulated other comprehensive loss	(150,556)	(177,459)
Total stockholders' equity	2,348,065	2,028,600
Noncontrolling interests	3,704	6,339
Total equity	2,351,769	2,034,939
	$6,050,847	$5,362,210

APPENDIX K – Consolidated balance sheets of financial services spin-off 2010-2011

CONSOLIDATED BALANCE SHEETS
(in thousands, except par values)

	December 31, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$ 418,299	$ 728,746
Accounts and accrued income receivable, less allowances ($30,504 and $39,904)	227,847	234,539
Income taxes receivable	20,431	22,266
Investments:		
Deposits with savings and loan associations and banks	56,201	59,974
Debt securities	2,201,911	2,107,984
Equity securities	184,000	282,416
Other long-term investments	200,805	213,877
Notes receivable from	—	18,787
	2,642,917	2,683,038
Loans receivable, net	139,191	161,526
Property and equipment, net	337,578	345,871
Title plants and other indexes	513,998	504,606
Deferred income taxes	39,617	96,846
Goodwill	818,420	812,031
Other intangible assets, net	59,994	70,050
Other assets	152,045	162,307
	$5,370,337	$5,821,826
LIABILITIES AND EQUITY		
Deposits	$1,093,236	$1,482,557
Accounts payable and accrued liabilities:		
Accounts payable	27,525	33,350
Personnel costs	137,024	137,848
Pension costs and other retirement plans	432,456	409,317
Other	138,929	155,889
	735,934	736,404
Due net	35,951	62,370
Deferred revenue	155,626	144,719
Reserve for known and incurred but not reported claims	1,014,676	1,108,238
Notes and contracts payable	299,975	293,817
	3,335,398	3,828,105
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.00001 par value, Authorized—500 shares; Outstanding—none	—	—
Common stock, $0.00001 par value: Authorized—300,000 shares; Outstanding—105,410 shares and 104,457 shares as of December 31, 2011 and 2010, respectively	1	1
Additional paid-in capital	2,081,242	2,057,098
Retained earnings	124,816	72,074
Accumulated other comprehensive loss	(177,459)	(149,156)
Total stockholders' equity	2,028,600	1,980,017
Noncontrolling interests	6,339	13,704
Total equity	2,034,939	1,993,721
	$5,370,337	$5,821,826

APPENDIX L – Consolidated income statements of financial services spin-off 2012-2014

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Year Ended December 31, 2014	2013	2012
Revenues:			
Direct premiums and escrow fees	$2,115,274	$2,184,464	$2,041,740
Agent premiums	1,841,618	2,044,862	1,709,905
Information and other	619,949	627,645	645,023
Net investment income	71,041	89,895	81,031
Net realized investment gains	31,768	9,211	67,686
Net other-than-temporary impairment losses	(1,701)	—	(3,564)
	4,677,949	4,956,077	4,541,821
Expenses:			
Personnel costs	1,410,752	1,445,582	1,334,866
Premiums retained by agents	1,470,895	1,636,694	1,370,193
Other operating expenses	833,681	885,805	836,319
Provision for policy losses and other claims	450,023	530,356	397,717
Depreciation and amortization	85,597	74,916	74,950
Premium taxes	57,194	56,715	51,304
Interest	19,247	15,301	9,066
	4,327,389	4,645,369	4,074,415
Income before income taxes	350,560	310,708	467,406
Income taxes	116,345	123,644	165,678
Net income	234,215	187,064	301,728
Less: Net income attributable to noncontrolling interests	681	697	687
Net income attributable to the Company	$ 233,534	$ 186,367	$ 301,041
Net income per share attributable to the Company's stockholders:			
Basic	$ 2.18	$ 1.74	$ 2.83
Diluted	$ 2.15	$ 1.71	$ 2.77
Cash dividends declared per share	$ 0.84	$ 0.48	$ 0.36
Weighted-average common shares outstanding:			
Basic	106,884	106,991	106,307
Diluted	108,688	109,102	108,542

APPENDIX M –Consolidated income statements of financial services spin-off 2010-2012

CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share amounts)

	Year Ended December 31,		
	2012	2011	2010
Revenues:			
Direct premiums and escrow fees	$2,041,740	$1,634,177	$1,663,498
Agent premiums	1,709,905	1,491,943	1,517,704
Information and other	645,023	621,483	628,962
Investment income	88,181	82,153	94,262
Net realized investment gains (losses)	60,536	(114)	10,209
Net other-than-temporary impairment ("OTTI") losses recognized in earnings:			
Total OTTI losses on equity securities	—	—	(1,722)
Total OTTI losses on debt securities	(1,757)	(12,748)	(8,497)
Portion of OTTI losses on debt securities recognized in other comprehensive loss	(1,807)	3,680	2,196
	(3,564)	(9,068)	(8,023)
	4,541,821	3,820,574	3,906,612
Expenses:			
Personnel costs	1,334,866	1,178,368	1,206,683
Premiums retained by agents	1,370,193	1,195,282	1,222,274
Other operating expenses	836,319	761,878	811,372
Provision for policy losses and other claims	397,717	420,136	320,874
Depreciation and amortization	74,950	76,889	80,642
Premium taxes	51,304	45,663	37,780
Interest	9,066	12,065	14,881
	4,074,415	3,690,281	3,694,506
Income before income taxes	467,406	130,293	212,106
Income taxes	165,678	51,714	83,150
Net income	301,728	78,579	128,956
Less: Net income attributable to noncontrolling interests	687	303	1,127
Net income attributable to the Company	$ 301,041	$ 78,276	$ 127,829
Net income per share attributable to the Company's stockholders:			
Basic	$ 2.83	$ 0.74	$ 1.22
Diluted	$ 2.77	$ 0.73	$ 1.20
Cash dividends declared per share	$ 0.36	$ 0.24	$ 0.18
Weighted-average common shares outstanding:			
Basic	106,307	105,197	104,134
Diluted	108,542	106,914	106,177

APENDIX N – Consolidated statements of cash flows of financial services spin-off of 2012-2014

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 234,215	$ 187,064	$ 301,728
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for policy losses and other claims	450,023	530,356	397,717
Depreciation and amortization	85,597	74,916	74,950
Amortization of premiums and accretion of discounts on securities, net	24,579	26,782	17,264
Excess tax benefits from share-based compensation	(6,856)	(6,202)	(2,372)
Net realized investment gains	(31,768)	(9,211)	(67,686)
Net other-than-temporary impairment losses	1,701	—	3,564
Share-based compensation	19,302	22,301	14,839
Equity in earnings of affiliates, net	16,545	(5,316)	(6,514)
Dividends from equity method investments	5,002	11,552	11,585
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:			
Claims paid, including assets acquired, net of recoveries	(469,750)	(479,310)	(445,986)
Net change in income tax accounts	45,872	2,589	64,486
(Increase) decrease in accounts and accrued income receivable	(9,950)	23,645	(29,398)
(Decrease) increase in accounts payable and accrued liabilities	(15,003)	5,318	83,979
Increase in deferred revenue	10,333	20,102	14,844
Other, net	795	(26,114)	(3,325)
Cash provided by operating activities	360,637	378,472	429,675
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash effect of acquisitions/dispositions	(163,320)	(5,837)	(32,476)
Net decrease in deposits with banks	4,211	4,747	2,522
Purchases of debt and equity securities	(1,969,009)	(1,532,710)	(1,796,314)
Proceeds from sales of debt and equity securities	928,386	621,255	954,626
Proceeds from maturities of debt securities	373,969	488,684	491,674
Net change in other long-term investments	8,025	6,443	6,591
Net proceeds from sale of loans receivable	42,284	—	—
Net paydowns on loans receivable	23,926	33,597	31,839
Capital expenditures	(97,222)	(87,142)	(83,892)
Proceeds from sale of property and equipment	12,058	5,807	7,767
Cash used for investing activities	(836,692)	(465,156)	(417,663)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	647,857	281,739	317,957
Net proceeds from issuance of debt	594,477	249,144	440,065
Repayment of debt	(325,110)	(168,205)	(510,544)
Net activity related to noncontrolling interests	(682)	(1,894)	(4,094)
Excess tax benefits from share-based compensation	6,856	6,202	2,372
Net proceeds in connection with share-based compensation plans	3,601	1,736	12,668
Purchase of Company shares	—	(64,606)	—
Cash dividends	(89,939)	(51,324)	(44,705)
Cash provided by financing activities	837,060	252,792	213,719
Effect of exchange rate changes on cash	(5,762)	(1,800)	105
Net increase in cash and cash equivalents	355,243	164,308	225,836
Cash and cash equivalents—Beginning of year	834,837	670,529	444,693
Cash and cash equivalents—End of year	$ 1,190,080	$ 834,837	$ 670,529
SUPPLEMENTAL INFORMATION:			
Cash paid during the year for:			
Interest	$ 17,327	$ 10,827	$ 8,909
Premium taxes	$ 58,148	$ 54,629	$ 45,375
Income taxes, less refunds of $13,925, $1,329 and $32,269	$ 72,028	$ 120,313	$ 87,324

APPENDIX O – Consolidated statements of cash flows of financial services spin-off of 2010-2012

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 301,728	$ 78,579	$ 128,956
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for policy losses and other claims	397,717	420,136	320,874
Depreciation and amortization	74,950	76,889	80,642
Excess tax benefits from share-based compensation	(2,372)	(1,145)	(1,080)
Net realized investment (gains) losses	(60,536)	114	(10,209)
Net OTTI losses recognized in earnings	3,564	9,068	8,023
Share-based compensation	14,839	14,981	15,163
Equity in earnings of affiliates	(13,664)	(8,099)	(8,376)
Dividends from equity method investments	11,585	11,991	8,257
Changes in assets and liabilities excluding effects of acquisitions and noncash transactions:			
Claims paid, including assets acquired, net of recoveries	(445,986)	(503,434)	(456,225)
Net change in income tax accounts	64,486	21,856	60,290
(Increase) decrease in accounts and accrued income receivable	(29,398)	5,367	4,730
Increase (decrease) in accounts payable and accrued liabilities	71,980	(32,073)	5,890
Net change in due to	11,999	18,595	(11,392)
Increase (decrease) in deferred revenue	14,844	10,907	(1,802)
Other, net	13,939	12,942	13,266
Cash provided by operating activities	429,675	136,674	157,007
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash effect of acquisitions/dispositions	(32,476)	(2,706)	(12,145)
Net (increase) decrease in deposits with banks	(14,405)	3,773	16,092
Purchases of debt and equity securities	(1,796,314)	(1,005,804)	(1,532,801)
Proceeds from sales of debt and equity securities	954,626	672,095	699,342
Proceeds from maturities of debt securities	491,674	322,009	597,838
Proceeds from redemption of Company owned life insurance	—	—	19,602
Net decrease in other long-term investments	6,591	3,860	13,429
Proceeds from notes receivable from	—	18,787	2,830
Origination and purchases of loans and participations	—	(13,534)	(9,090)
Net decrease in loans receivable	31,839	35,869	9,461
Capital expenditures	(83,892)	(69,797)	(88,725)
Proceeds from sale of property and equipment	7,767	9,345	8,832
Cash used for investing activities	(434,590)	(26,103)	(275,335)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	317,957	(389,320)	328,983
Proceeds from issuance of debt	440,065	24,185	213,462
Proceeds from issuance of note payable to TFAC	—	—	29,087
Repayment of debt	(510,544)	(23,117)	(40,958)
Repayment of debt to TFAC	—	—	(169,572)
Contributions from noncontrolling interests	221	—	—
Distributions to noncontrolling interests	(913)	(335)	(1,133)
Excess tax benefits from share-based compensation	2,372	1,145	1,080
Net proceeds in connection with share-based compensation plans	12,668	1,152	2,430
Purchase of subsidiary shares from/other decreases in noncontrolling interests	(3,402)	(4,156)	(3,746)
Sale of subsidiary shares to/other increases in noncontrolling interests	—	—	110
Purchase of Company shares	—	(2,502)	—
Cash dividends	(44,705)	(25,216)	(12,502)
Cash distribution to TFAC upon separation	—	—	(130,000)