

Sears' Spinoff of Lands' End

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Abstract

Following several years of declining revenues and profits, in 2011 Sears began to hive off its business divisions. As part of its series of divestitures, on December 6th, 2013 Sears announced its intention to spin off Lands' End in a stock distribution to the existing Sears' shareholders. With the spinoff, each Sears shareholder received approximately 0.3 shares of Lands' End stock for each share of Sears stock that they owned and Sears would receive an approximate cash payment of \$500 million dollars from Lands' End which was funded from the proceeds of a \$515 million loan. In light of terms of the spinoff, the stockholders and other stakeholders of Sears and Lands' End needed to evaluate their relationships with the firms. Should Lands' End stockholders keep their shares or sell them? Would the terms of the spinoff hurt the ability of Lands' End to operate in the future?

Learning Outcomes

After completing this case, students should be able to:

1. Describe the justifications for a firm to spin off a business division.
2. Identify how the transfer of value of the newly created firm from the parent firm in a spinoff is accounted for on the balance sheets of both firms.
3. Explain how a spinoff may affect the required rate of return on debt for the parent firm and the new firm created by the spinoff.
4. Evaluate how the terms of a spinoff might affect the ability of the newly created firm to operate following a spinoff.
5. Determine if value was added by a parent to a business division prior to a spinoff.

Application

This descriptive case study is most appropriate for intermediate undergraduate and MBA finance courses. The purpose of the case study is to identify and integrate complex issues regarding corporate divestitures, costs of capital, and the macroeconomic environment. Prior to analyzing this case, students should have acquired an intermediate knowledge of financial statement accounts and construction, corporate debt and the cost of debt, and financial ratio analysis.

Key Words

spinoff, divestiture, financial statement analysis, cost of capital

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