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The Split of Svenska Cellulosa Aktiebolaget (SCA)

A case study on how companies are influenced to undertake a divestiture when the perceived internal corporate identity deviates from the external

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Abstract

This thesis investigates how differences between the perceived internal corporate identity and the external identity affect the decision to divest a business unit. The chosen method was a qualitative case study of SCA, with 16 interviews of stakeholders with connection to SCA and their spin-off Essity. Like our theoretical framework based on Zuckerman (2000) and Gilson et al (2001), we found that corporate identity complements earlier research in the area as a tool for explaining divestitures and the equity discount. Our interviews further revealed that specialized investors appear to be equally important as the analysts for a firm's valuation. Opposed to Zuckerman and Gilson, the thesis suggests that the perceived internal corporate identity is a better predictor than the external of which units that are divestment candidates and that the choice of method can be explained by traditional supply and demand theories.

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Key words: Analyst Specialization, Corporate Identity, Coverage Mismatch, Divestment, Equity Discount

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1. Introduction

In recent years, spin-offs have dominated the agenda for several enterprises and in Sweden, SCA, Atlas Copco and Autoliv only constitute an extract of what has been referred to as a trend. Back in the 1980s, more efficient capital markets and improved investor power reversed the conglomerate wave from the 1960s and dealt with issues regarding conglomerate discounts and value-reducing policies (Zuckerman, 2000; Berger & Ofek, 1995) while also refocusing businesses into creating shareholder value as the main objective (Landelius & Treffner, Ch. 5, 1998).

The new reality with shareholderism, where firms are forced to meet the capital market's expectations and pursue its interests, is also illustrated by managers willingness to de-merger corporations in order to increase the share price and improve transparency towards the market (Ezzamel et al, 2008; Roberts et al, 2006). Further, it's recognized that as a firm's investors study its peers and analysts are specialized in various industries, the corporate identity and the market's perception of that identity becomes so important that divestitures might take place when companies strive to satisfy the analyst audience (Zuckerman, 2000; Gilson et al, 2001).

While the typical 80's inspired breakups of conglomerates continue, with the historical industry giants Siemens and General Electric (GE) having announced divestiture plans in 2018 (Reuters, 2018a; 2018b), new themes arise that put spin-offs in another perspective. To illustrate, Autoliv's decision in 2017 to split its passive and active safety divisions by spinning off the electronics division Veoneer was motivated with strategic rather than structural aspects (Autoliv, 2017), which raise questions whether the capital market has developed alternative restructuring goggles to the traditional structure oriented view.

This development constitutes what we consider to be a gap in the existing literature, where we might approach today's spin-offs and divestitures with the eyes of the 1980s, which in turn was heavily influenced by a capital market who dealt with the remnants from the 1960's conglomerate trend. Can it be that the theories of inefficient investment policies and structural deficiencies, expressed by Ozbas & Scharfstein (2009) and Rajan et al (2000) among others, reflect an approach where the conglomerate and the intensely covered conglomerate discount (Rajan et al, 2000; Berger & Ofek, 1995; Kengelbach et al, 2014) currently are the center of attention and possibly lack aspects like the those brought up by Zuckerman (2000) and Gilson et al (2001) concerning the gap between the market's and the firm's perception on the corporate identity?

1.1 Research Question

With the identified gap in the current literature, the purpose of this thesis is to explore if identity is a factor that affects today's enterprises to divest a part of their business. Therefore, the research question can be formulated as:

> *How are companies influenced to undertake a divestiture when the perceived internal corporate identity deviates from the external?*

Our aim with the study is to get a deeper understanding about what role the demands of the capital market play for modern divestitures, the key arguments for undertaking a divestment and provide an interpretation of the currently strong trend with spin-offs.

1.2 Study Contributions

We believe that our thesis can contribute in three ways: First, with the choice to make a qualitative study, we differentiate from previous research in the area which currently is mainly quantitative. Second, earlier research appears to be generally orientated towards the 1980's spin-off cycle, while we intend to study the characteristics of the current wave. Finally, we believe that our thesis can contribute to a better understanding of the current trend of spin-offs among firms and its drivers.

1.3 Delimitations

Since the SCA split was preceded by turbulence and shifts in its top management, board of directors and the major shareholder Industrivärden, we felt obliged to look up these factors. However, as the story has been thoroughly reviewed in the book Tronstriden (Nordström, 2017) and by the Swedish news magazine Svenska Dagbladet (SvD), we came to the decision to focus on the split itself and treat it as variable among others. Also, given that SCA is a Swedish company, there might be a nationality bias as the respondents and other data material could reflect the preconditions in Sweden and limit foreign generalization possibilities.

2. Previous Research and Theory

In this part, we will provide a review of earlier research considering definitions of conglomerates, factors that might push firms to undertake a divestment, the relationship between firms and the capital market and finally how the market reacts on spin-off decisions. Furthermore, the theoretical framework describes how diversification and corporate identity might cause an equity discount and give rise to analytical coverage mismatch.

2.1 Earlier Research

2.1.1 Conglomerates - The Ambiguous Firm Structure

Even though the conglomerate should be familiar to most economists, it does not appear to be crystal clear how it is defined among the expertise. In the OECD glossary, the definition suggests that:

> *"A conglomerate is a firm or business enterprise having different economic activities in different unrelated industries (OECD, 2013)."*

Over the years, researchers have provided their take on the conglomerate definition and an alternative description is offered by Leinwand and Mainardi (2012) who states that:

> *"A conglomerate, by definition, is a large corporation with diversified product lines, owned and run by the same management."*

The ambiguity regarding what is to be considered unrelated or diversified business segments is addressed by Berger & Ofek (1995), who use Standard Industrial Classification (SIC) codes in order to classify whether businesses are to be considered related or unrelated in comparison to each other. If the firm's business lines have SIC codes which deviate on either the second, third or fourth digit, they are classified as unrelated and are to be considered a conglomerate.

However, this classification approach has its limitations according to Scharfstein (1998), who argues that businesses that differ on the second digit in the SIC codes still could produce similar products and/or services and it is further emphasized that they might be vertically integrated and thus should not be seen as unrelated. Matsusaka (1993, referred to by Scharfstein, 1998) attempted to resolve these limitations by identifying the vertical relationships between activities and the suggested solution is that unrelatedness occurs if the firm's divisions deviate on the second digit or if the businesses differ on the third digit and sells less than 5% of their output and likewise purchase less than 5% of their input to/from one another. Though, Scharfstein (1998) criticized this method by pointing out that it might identify vertical relatedness among the businesses but not the horizontal links and the outcome is that Scharfstein use personal judgement to identify conglomerates as it reduces the risk of eliminating related businesses.

2.1.2 Potential Spin-off Drivers

Despite the de-merger wave in the 1980s (Zuckerman, 2000) and several studies describing the issues surrounding the conglomerate structure (Berger & Ofek, 1995; Scharfstein & Stein, 2000; Shin & Stulz, 1998), it has not always been treated with skepticism. Weston (1970a; 1970b) raised a positive view of diversification policies, arguing that conglomerates achieve efficient investment allocation, risk reduction, imperfect earnings flows and synergies/carryovers on management and staff. Furthermore, Leinwand and Mainardi (2012) presented their coherence concept, which is described as a glue that ties a conglomerate together, where GE is brought up as a "Coherent conglomerate". The idea is that for conglomerates to succeed long-term, they must be able to identify how to operate diverse businesses on a relevant and meaningful scale, use common unique capabilities throughout the divisions and engage in active portfolio management; divesting parts who do not fit the groups' profile.

Lewellen (1971) identified similar benefits as those mentioned above but pointed out that these were generally not dependent on the conglomerate structure itself and could be achieved by the standalone firms. Instead, he elaborated on the theories of Modigliani and Miller (1963; 1958), which state that debt is preferable within a certain non-financially distressed debt-to-equity ratio interval in the presence of corporate income tax. The concept capitalizes on the consequences of diversification, which improves the company's risk profile (lower risk) and thus enables additional debt capacity, that in combination with corporate income tax and tax-deductible interest expenses, creates the interest tax shield (ITS). On the other hand, Majd and Myers (1987) provided a tax argument which states that divisions' imperfectly correlated earnings streams reduce tax payments since some divisions' losses cancel out others' profits.

The earlier mentioned idea of conglomerates as efficient allocators of capital has been questioned in several studies (Scharfstein & Stein 2000; Shin & Stulz 1998; Stein 1997).

Despite arguing for the existence of those benefits due to credit constraints, which push headquarters into allocating resources efficiently to divisions with the best investment opportunities, Stein (1997) adverts empire-building behavior as something that must be dealt with given that there is an overinvestment tendency among top management. However, in an efficiency test made by Shin & Stulz (1998), investment proved higher in segments with better investment opportunities but not to the extent that it confirmed a solid and efficient internal capital market. This due to that the investments were dependent on the individual segments' cash flow generation, even if a reduced dependency was seen among highly diversified firms and winner picking could prove easier with related business lines. These findings are supported by Scharfstein & Stein (2000) who argued for the existence of socialism in internal capital markets, implying that the cross-subsidization identified by Shin & Stulz (1998) does not occur on the basis of where the best investment opportunities exist, which was further investigated by Ozbas & Scharfstein (2009) who continued to support the cross-subsidization theory.

The issues with inefficient investment has been identified as a factor behind the so-called conglomerate or diversification discount, with Berger & Ofek's (1995) indications of overinvestment and value reducing cross-subsidizing policies and Rajan et al (2000) addressing the risk for distortions in the internal capital market. However, Rajan et al highlights that even if the concept of intra-division flows is theoretically possible, it appears to be difficult in practice, creating distortions where segments struggle for resources and where increasing diversity drive the discount compared to single-segment peers. Berger & Ofek (1995) found that related divisions appear to reduce but not eliminate the discount and in general, diversified businesses seem to underperform when they are compared with their standalone peers. Johnson et al (Ch. 8, 2017) stressed that the distinction between related and unrelated diversification isn't always easy to identify and that the relationships categorizing related diversification might not perform in practice or change over time. They further state that firms' decisions to diversify should be met with skepticism as there are both value creating and destroying options, while growth through diversification must be profitable. Another observation made by Berger & Ofek (1996) suggested that besides the conglomerate discount, value losses from diversification increase the probability of Leveraged Buyout (LBO) breakup takeovers.

The described headwind in valuation for conglomerates has been studied more closely by Kengelbach et al (2014) who indicate that between 1998-2009, conglomerates were on average undervalued/discounted with a factor of 10.5% and 5.9% in North America and Europe respectively. It is further shown that the discount became smaller in periods of recession when investors sought companies with more stable earnings, while it increased during recovery periods when investors instead were less risk averse. Therefore, conglomerates appear to face higher demand when the macro environment is volatile as the perceived risk associated with the diversified structures is lower, given that businesses can cover up for each other, which is in line with Majd and Myers (1987) ideas of tax benefits from profit cancelling.

2.1.3 The Relationship Between Firms and the Capital Market

> *"In the end, shareholder value is about ensuring that the external demands - those that comes from the capital market - also is applied internally in the company, and that one realizes that what is applied internally will have effect on how the market sees the company"* (Landelius & Treffner, Ch. 5, 1998).

How firms interact with the capital market and how they are influenced by its interests has been intensively covered in several studies, with Roberts et al (2006) and Ezzamel et al (2008) describing the significance of shareholder value, and Kraus & Lind's (2010) study of corporate control and corporate balanced scorecard. Kraus & Lind (2010) found that one impact on corporate control came from external influences and the capital market, where the top manager-market interaction brought directors the perception of being under pressure to achieve financial results. Their interviews revealed that the perceived capital market pressure was common among companies and that much of the work became somewhat orientated towards the market. Sometimes it even took extreme turns as the share price itself was raised above all other issues, a sort of quarterly capitalism with managers having constant awareness of how the stock price developed and emphasizing shareholder value towards the market. Financial numbers such as growth, EBITDA (earnings before interest, taxes, depreciation and amortization) and cash flow were what the directors thought the market wanted and thus this was given to them. Though some questioned whether the pressure could cause unwise decision-making as both internal and external influences pushed in the direction of financially oriented corporate control.

Similar arguments regarding the relation between directors and the capital market was presented by Roberts et al (2006) as they pointed at how managers appeared to do whatever the market pushed for to raise the share price. This regardless of the possible long-term effects and whether it concerned cost cuts, supplier deals, R&D cuts or launching share buyback programs rather than investing for the future. However, the focus lied on describing the private face-to-face meetings between top directors and institutional investors and how managers customized their approach depending on what the institutions required. They describe how investor relations (IR) became investors voice inside the company and how fund managers used the meetings in a ritual way to demonstrate who was actually in charge of the business, seeking to hold managers responsible for any disappointments. One finance director described obedience in meeting the demands of fund managers as:

> *"Now if you don't, and I suppose you are arrogant with the fund managers and you don't take notice, you're storing up a huge amount of trouble for yourself."* (Roberts et al, 2006)

Another example was how managers even would be prepared to restructure the corporate body and de-merger businesses to extract every ounce of value on the parts and enable investors and analysts to recognize what managers believed to be the actual value sources.

The seemingly intense focus on shareholder value is discussed by Ezzamel et al (2008) as a neoclassical economic argument that made its grand entrance in the 1990s as a reaction to the 1980's risk averse managers, who had a tendency to build big and safe firms independent of whether it was to the shareholders' benefit. Between 1989 and 1990, the use of the word shareholder value in annual reports went from 3 times to being mentioned 380 times in a review made by Financial Times (referred to by Ezzamel et al, 2008) and became the norm among executives and analysts. The results according to Ezzamel et al, was the creation of a loud social movement pressing corporate directors to meet the markets' expectations or be dismissed, making the capitals' interests in form of shareholder value the center of attention. Despite the focus on shareholderism, there has been critiques questioning it as an ideological short-term view on value creation with unclear logic regarding wealth distribution, as an example.

2.1.4 Common Methods for Divestitures

Two common methods for creating shareholder value through restructuring actions has been the spin-off and the sell-off. A spin-off:

> *"[...] occurs when a company distributes all of the common shares it owns in a controlled subsidiary to its existing shareholders, thereby creating a separate public company"* (Miles & Rosenfeld, 1983).

The implication is that a spin-off does not include any transactions affecting the firm's cash flow statement and holds the shareholder structure prior to the split unaffected in both companies (Nixon et al, 2000). The second method, the sell-off, have some similarities with the spin-off regarding technical aspects as both aim at separating business segments from the company and provides an opportunity for the parent firm to specialize in a more limited number of business areas (Jain, 1985). However, there are multiple differences as the sell-off includes a third party to carry out the transaction and instead of distributing the held common shares to the parent's existing shareholders, it is transferred to the purchasing third party and hence the parent sees a shift from illiquid to liquid assets in their balance sheet. Furthermore, a sell-off transaction results in a positive cash flow effect and appear more common for firms that currently deal with financial distress and thus requires cash for survival (Nixon et al, 2000).

They further state that there are diverse motives behind a sell-off and a spin-off, where the firm's liquidity situation is highlighted as an important factor and as well as the performance prior to the announcement, where it is suggested that the announcement of a sell-off appears to follow from a period of underperformance while a spin-off announcement usually is delivered in a period with strong high performing markets. Another distinctness regarding spin-offs refer to that the size of the original company usually shrinks after the split has been carried out, which contrasts a sell-off where the firm's size typically remains unchanged given that the cash received is not distributed to investors. Nixon et al (2000) also indicated that divestitures of larger subsidiaries often take the form of a spin-off since there is an anticipation of a link between the size of the spun-off division and the probability of survival as a stand-alone firm.

Despite the somewhat disparate context underlying the two divestiture methods, both the spin-off and the sell-off has a similar outcome with an increase in corporate focus, which is emphasized by Cusatis et al (1994) who argued that the undervaluation of a firm's assets, the conglomerate discount, depends on the markets inability to evaluate the conglomerate structure. This is further discussed by Veld et al (2003) who refers to conglomerates' more distinct issues with information asymmetry between management and the capital market compared with specialized companies, so called "pure peers," and hence becomes undervalued. They continued by showing that when conglomerates are divested, the information asymmetry is reduced and has a positive effect on the discount.

The phenomenon where the conglomerate discount decreases with a divestiture has been shown by several researchers, with Jain (1985) and Miles & Rosenfeld (1983) showing that the sell-off announcement has a positive effect on the shareholders wealth, both for the seller and the buyer. However, Nixon et al (2000) are favoring spin-offs from a shareholder perspective since the existing shareholders in the firm will receive the additional value created due to the reduced asymmetry after the spin-off has been closed, while not receiving similar benefits from a sell-off if the company's assets are undervalued.

2.2 Theoretical Framework

As mentioned earlier, the de-diversification trend in the 1980s was a product of the increasing bargaining power attributed to the capital market and a period of managers building empires of unrelated businesses (Zuckerman, 2000). While these theories target conglomerate breakups by accentuating internal deficiencies, an alternative approach to the diversification discount theories and the de-merger wave is featured by Gilson et al (2001) and Zuckerman (2000). Zuckerman discuss corporate identities in terms of products, where consumers make comparisons with its product rivals and thus he suggests that the same logic applies for the stock markets, where firms (products) are placed in distinct categories of industries and sectors and then analyzed through comparison with their peers by the analysts (consumers), who in turn generally is specialized by industry. The bottom line is that:

> *"Just as a seller in a product market aims to meet consumer demand, managers of a public firm must satisfy investors."*

The existence of conglomerates is for that reason to be considered an indicator of a corporate governance imbalance, where moves towards unrelated diversification comes from managers' unreasonable optimism regarding their ability to create value and conditions that allow them to ignore investors. The implications from viewing companies as products are binary: Firstly, when a firm is rejected by a specialized analyst there is no industry validation, which causes "coverage mismatch" as the product is not recognized in its intended category. Thus, the likelihood of competitive issues increases as the firm risks being screened out and ignored. Secondly, the analyst mismatch creates an equity discount, where diversified multi-industry corporations and conglomerates are particularly exposed as they are surrounded with uncertainty regarding which analyst who should cover the stock and where it has its peers. De-merger is therefore a method to seek validation from the analyst covering the industry corresponding to the perceived identity within the firm and resolve the otherwise occurring coverage mismatch and thus make the company, to quote a mentioned CEO in the article, *"easier for [stock] researchers to follow."* It is further stated that:

> *"[...] business lines with high levels of coverage mismatch detract from a straightforward valuation of the firm. They are peripheral to the firm's identity, as defined by analysts' reception, and thus ripe for divestiture."*

Zuckerman concludes that the potential divestiture drivers, which was mentioned earlier in this paper, affect the likelihood of de-merger but the pressure firms struggle with in order to legitimate its identity is a factor that also should be taken into consideration.

Unlike Zuckerman, Gilson et al (2001) discuss conglomerate breakups on a basis of supply and demand, where the demand for coverage by financial analysts come from investors' wish to trade the firm's stock as well as the firm's requests for investment banking services. In turn, the supply effect arise as the breakup leads to the disclosure of more information in the post-breakup firms, which reduce the analysts' research costs and thus the transaction generates both supply and demand effects that in combination improve analyst coverage. It is further mentioned that investment bankers had indicated that they advocate the coverage benefits as a selling point for breakups, including quantitative as well as qualitative factors.

As conglomerates are split in more focused entities and thus manage the mismatch between analysts' expertise and the firm's focus, a foundation for more specialized analyst coverage is set, which should result in better pricing of the firm's stock and also improved stock analysis from financial analysts as:

> *"Forecast accuracy is likely to increase for two reasons. First, the additional disclosure, in the form of disaggregated financial statements, that accompanies breakups is likely to make it easier for analysts to forecast earnings. Second, the increased ability of specialists to utilize their industry expertise when covering post-breakup firms should lead to improved forecast accuracy."*

However, Gilson et al stress that with a situation where improvements in forecast accuracy are purely attributable to increased disclosure, managers would have the opportunity to amplify their segment reporting and receive equal benefits in the capital market. The alternative is improved forecast accuracy due to more efficient matching between firms and analysts specialized in the industry, which then implies that a breakup is a more suitable solution than expanding segment reporting and disclosing more information.

Their results indicated that breakups of conglomerate stocks effectively attracted analysts and led to increased coverage, where the firm facing a breakup saw an 45% increase in coverage from analysts and as much as 250 % regarding subsidiary specialists. The improved forecast accuracy appears to reflect not only that more information is disclosed, but also that the more focused business attracts specialists who start to cover the stock, which is further supported by an analysis made on breakups of non-conglomerate firms, where coverage improvements was not as distinct as for the conglomerates.

3. Method

In the following section, the research method and theory behind it will be described and why SCA was the selected case for the study. Furthermore, the data collection process will be explained, including how the interview objects were chosen, the process from first contact to the transcribed interviews and how it has been analyzed.

3.1 Research Design

This paper has approached the research question exclusively through a qualitative method in the form of a case study (Ryan et al, Ch. 8, 2002) of the Swedish company Svenska Cellulosa Aktiebolaget (SCA). The primarily data source has been interviews made with important internal as well as external stakeholders of the company (see Appendix 1). The reason for using a qualitative method have its origin in the aim to study divestitures and its motives from a practical point of view since the subject area currently is theoretically oriented. Due to the limited sample when performing a case study, a common view is that generalizations should be treated carefully and rather be seen as a basis for further investigation (Ryan et al, Ch. 8, 2002). However, generalization is not a binary decision, rather a degree of judgement implying that the receiver of the information determines if the conclusions is transferable to other cases. With the intention to increase the transferability of this study, we have also collected material through observations on the annual general meetings of both SCA and Essity (the spun-off hygiene business from SCA) in 2018 and through a document study of annual, interim and analyst reports, as this allows for cross checking of data against each other through triangulation which enhance the validity of the study (Ruddin, 2006).

3.2 Case Selection

To improve the generalizability, the selection of a suitable case is crucial. With the intention to enhance and simplify the interview possibilities, we only thought of candidates with headquarters located in Sweden. Further, we preferred publicly listed companies on OMX Stockholm large capitalization list since we anticipated that the number of analysts, investors, fund managers i.e. should be larger on these companies and hence generate better interview possibilities. Lastly, to make the research relevant, the candidates should recently have initiated or finished a spin-off process and in the end, we considered three candidates for the study: Autoliv, Atlas Copco and SCA, where SCA was chosen. The reason for this choice is attributable to the interesting background story of the firm, where a potential divestment had been discussed since 1990s and received a lot of attention. Further, they have finished the spin-off process, compared to Autoliv and Atlas Copco who at the time only had announced their intentions to divest their subsidiaries Veoneer and Epiroc. Additionally, prior to the spin-off SCA had conducted a sell-off of their packaging division which gave us the possibility to study the motives behind the different divestment methods. Therefore, we believe that SCA can provide a broader picture of divestiture decisions and thereby increase the generalizability and transferability of the conclusions.

3.3 Data Collection

As aforementioned, data has been collected in three ways: Interviews, which constitute the primary data resource, analyst, annual and interim reports and through observations on the 2018 annual general meetings of SCA and Essity.

3.3.1 Interviews

Starting the collection process, we did not have a top or bottom level for the number of interviews to be conducted as we focused on achieving a certain variety by combining different actors on the capital market (institutions, activist funds, analysts, owners) and from the firms (directors, former directors, chairman, IR). In the end of the process, 16 interviews had been carried out where seven of the interviewees did currently or had worked on SCA, while the remaining interviewees represented the capital market’s view. The intention with the balance between the interviewees was to increase the validity of our conclusions (see Appendix 1).

3.3.1.1 First Contact

At first, we contacted several analysts due to the ease of finding contact information as both emails and phone numbers were public on the companies' websites. Focus were on analysts covering both SCA and Essity since we presumed that they had followed the company before the split and thus could provide more information. Further interview objects were partly depending on suggestions from our first interviewees regarding who they considered to be interesting for our study. We were also encouraged to read the book Tronstriden which helped us find possible interviewees with a vital role in the company prior to the split.

The first contact was made through email where we presented some background on the subject and the intentions with the thesis. Email was preferred as we considered it important to minimize interference in their daily work and give them the opportunity to answer when possible. However, email might also imply a greater risk of ignorance compared to contact by phone, something we did not experience to any larger extent. Two interviewees had to be contacted through telephone as we could not find email addresses but as contact was established the conversation continued through email.

3.3.1.2 Interview Guidelines

The interviews were conducted in a semi-structured way (see Appendix 2), allowing for follow up questions to further explore issues brought up in the conversations. The challenge with semi-structured interviews is to interpret the conversation, thinking of appropriate follow up question while at the same time keeping the theoretical framework in mind (Marginson, 2004). As we took advantage of always being two on the interviews, this did not cause any major issues since it allowed one to focus on the pre-written questions while the other could listen extra carefully on the conversation, making it easier to come up with follow-up questions. As the interviews progressed, we adjusted the interview guide to include new aspects that had been noticed in previous interviews which were thought to be appropriate to discuss with the other interviewees.

Interviews was made either face to face or over the phone, where phone interviews was pursued if the interviewees requested it. Like the conclusion of Sturges & Hanrahan (2004), we did not find it to affect the interviews in a negative way and when transcribed the differences were not significant compared to the face to face interviews. The only issue we felt challenging with the phone interviews was the accidental interventions due to not being able to see if the interviewee had more to say.

All interviews were recorded after ensuring that interviewees accepted it and by being able to record the conversations, we got the opportunity to listen to the interviews several times, which led to the discovery of things we had not noticed at first. The alternative to record the interviews was manual recording, where notes had to be made. Though Hayes and Mattimoe (2004) argued that taking notes during the interview reduce the work with transcribing, we also felt that it would have reduced the attention in the conversations and thus the ability to ask follow-up questions. They further highlight that there is a risk for the interviewees to feel uncomfortable when recorded, which might make them somewhat reductive in their answers. We never thought of it as a major issue since the interviewees who discussed potentially uncomfortable questions stressed that they didn’t want quotations on these specific parts.

3.3.1.3 Interview Challenges

In general, we suggested between 30 to 45 minutes to conduct the interview and were aware that prioritizations had to be made and strived to adapt the number of questions to a level where we felt comfortable that there would be enough time and no need to stress. This proved to be more challenging than we first thought as the different interviewees spoke with very different speeds and distinctness, resulting in some interviews being finished earlier than expected, while others instead required more time than planned.

Another thing that appeared when conducting the interviews was that when interviewing experts and “elites”, we sometimes felt the asymmetry regarding experience, which affected the perceived power position during the interviews. It became clear from time to time that the interviewees had a predetermined agenda that he or she wanted to emphasize, which made considerations about follow-up questions harder and created some uncertainty related to if the interview guides had questions that could be considered provocative or inappropriate. Despite this, we managed to stick to our prepared interview guides and only made minor adjustments on how we formulated questions rather than changing the actual content to reduce the risk that potential questioning of the interviewees’ statements would cause unwanted reactions. These issues are also brought up by Kvale and Brinkmann (2009) who discuss the situation when making interviews where there are different power positions but also state that researchers might leverage from experts’ confidence in their areas, which could improve the tolerance for being questioned.

3.3.2 Annual General Meetings

We decided to attend the annual meetings for several reasons. Interviews have only been made with persons that have or have had direct connection to the companies. The meetings became a way for us to come in touch with the common shareholder's view of the split and see if there would be any visible differences in focus on the two meetings. Furthermore, the annual meetings allowed us to observe the transparency towards the shareholders.

3.3.3 Document Study

Information has also been gathered by screening analyst reports from the time around the divestiture decision and execution. The intention was to investigate if there were any differences in the analyzes of the combined company compared to the two separate firms. Further we have examined annual reports to see how and if the information given to the market has changed after conducting the divestiture. This information has allowed us to cross check the information received during interviews.

3.4 Data Analysis

The analysis process started with the transcription of the interviews, a time-consuming process but as O`Dwyer (2004) stated:

> *"Transcribing the interviews yourself enables you to analyze in depth as you transcribe and gives you a better 'feel' for the data as you progress".*

Since all interviewees accepted to be recorded, we had the possibility to transcribe them all, giving roughly 140 pages of transcribed data. To begin the analysis by transcribing all interviews had several advantages. It increased the understanding of the material but also made us find new aspects and themes that not was detected during the interviews. As we had over 100 pages of data to process, we felt it necessary to organize it in a structured way. Therefore, a coding process began. Based on the interview guides we found two main themes in the interviews, *factors affecting the decision to make a divestiture* and, *factors affecting the decision of divestiture method.* These two core themes were the focus when starting the organization of the data and as we progressed they were divided into several subthemes. Going through the transcripts several times made new themes emerge and in the end, we had a total of sixteen subthemes. When a theme was discovered in the transcripts, it was marked in the document along with the page number where it occurred and was inserted into an Excel workbook.

	Factors affecting the decision to make a divestiture (D)							
	D/S	D/FC	D/D	D/ST	D/SH	D/T	D/TR	D/P
Int 1	1 2 7	-	4 6	3	2 3	2 3 4	4 6	2
Int 2	2	1 2 3	3 4 6	-	2 3 5	-	7	8
Int 3	3	-	-	-	4	4 5 7	3 5 6	-
…	…	…	…	…	…	…	…	…

D/S Belief that the structure is inefficient or obsolete
D/FC A method to increase corporate focus
D/D More distinct cases for investors
D/ST Increased clarity in company strategy
D/SH Way to increase shareholder value
D/T Timing of the divestiture
D/TR Increasing transparency towards stakeholders
D/P Pressure from outside the company

Chart 1: *Extract from the coding process, the number is the page in the transcript where the interviewee emphasized the subtheme.*

According to O'Dwyer (2004) this process of organizing data has several positive aspects. Firstly, to be able to code the material, a deep reading and understanding of the transcripts is necessary and hence in the process to organize you also analyze. It also allows for a simple way to find similarities and contradictions within certain interviews but also between the different groups (firms and the capital market). Furthermore, by marking the themes in the transcript and inserting the page number facilitates a quick access to relevant citation from the interviewees when necessary.

Since all interviews were made in Swedish, the quotes that were to be used in the empirical findings had to be translated into English. Thereafter the quotes were sent to the interviewees for approval, both translation as well as the context so there wouldn't be any unnecessary misinterpretations. Only minor changes regarding choice of words was made, though without any impact on the content.

4. Empirical Findings

This part of the thesis will start off with a historical description of our case company SCA. Further will the empirical findings be presented in three segments divided into important time periods for the development of today's SCA and Essity. First, will we investigate the period of 2000-2003 were the hygiene part of the company for the first time becomes dominating. Secondly, the period of 2011-2013 will be described were SCA changed index to become a hygiene player and lastly the period from 2016 were the announcement of the spin-off occurs.

4.1 The SCA History - An Overview

With 89 years in the business, it is not an understatement to say that the Swedish forest company has had a long and eventful history. Below, we describe several incidents, which are summarized in the figure, that we consider relevant and has had a material impact on the company.

The company was founded in 1929 through multiple mergers of forest companies and the transaction was managed by the Swedish businessman Ivar Kreuger, also called "The Match King" as the founder of what is today known as Swedish Match (Trolle, 1992).

Figure 1: The SCA Timeline

Between 1930-1949, SCA faced a turbulent environment, with international economic depression and the death of Ivar Kreuger, leading to Svenska Handelsbanken (SHB) taking control over the company in 1932. Despite the difficult climate they continued to invest in pulp production and the construction of the Östrand pulp mill began, which by 1936 was among the largest in the world (SCA, 2017d).

In 1960-1974, they consolidated and expanded their businesses and as the period was characterized by weak general demand for forest products, they began to produce kraftliner and built up a packaging business. Further expansion took place in 1975 when the company took the initial steps towards becoming a consumer goods producer with acquisition of the Swedish personal care company Mölnlycke, creating a diverse product line with the addition of tissue, diapers and incontinence products. This also marked the starting point for global expansion of the personal care business and in 1995 the group became the European leader (SCA, 2017d). The increased diversification of SCA's business lines led to the encouragement to split the company in 1996 from the major shareholder Custos and its CEO Christer Gardell, who argued that a divestiture would be beneficial for shareholders and realize substantial hidden values. The approach was dismissed by SCA's CEO Sverker Martin-Löf, arguing that synergies corresponding to at least the hidden values would be lost in a divestment (Hägglund, 2001).

Instead, SCA continued the expansion and consolidation of the personal care and packaging business. In 2012, the decision to focus on the consolidation of one of the two fragmented markets lead to the divestment of the packaging business through a sell-off to DS Smith, a pure packaging player, and at the same time Georgia Pacific´s European tissue business was acquired (SCA, 2017d). These transactions also led to the fulfilment of the transformation to become a consumer goods company, ending in a reclassification where the share was put in Morgan Stanley's Consumer Index (Industrivärden, 2012). It was followed by the expansion into the Asian emerging markets through the acquisition of Vinda in 2013. In contrast to the hygiene acquisitions, SCA took the largest investment decision in the company's history in 2015 by investing 7.8 billion SEK to once again make Östrand one of the biggest pulp mills in the world (SCA, 2017d). The streamlining took a new step on August 24th, 2016 when SCA proposed a split of the company into hygiene and forest products, by spinning off the former to the shareholders (SCA, 2016b). Later that year, the hygiene company announced a large acquisition of the leading medical solutions provider BSN medical (SCA, 2016c). On the annual general meeting in 2017, the proposed split was approved by the shareholders and on June the 15th, both Essity (hygiene) and SCA (forest products) were publicly traded for the first time (SCA, 2017b).

4.2 A Paper Company in Transformation

As was seen in the timeline above, with the packaging business under construction and the acquisition of Mölnlycke in 1975, there had been a transformation from traditional forest industry where SCA integrated forward in the value chain and began to refine the raw materials from its forests. The goal with the transformation was partly to reduce the company's exposure to currency risk as the firm's competition at the time mainly came from North American firms and SCA's profits was highly dependent on the American dollar. The CEO at the time also described the transformation as a way to:

> *"[...] engage the company in refining the products and forward integration of the business, so that we would come closer to the end customer and get more control of the price"* (Sverker Martin-Löf)

Therefore, three business legs consisting of forest products, hygiene goods and packing solutions were built up with more than 250 acquisitions. In the beginning of the 21st century, these legs had roughly the same size and contributed equally to the firm's operating profit. With its more diversified business lines, SCA described itself in the annual report of 2000 as an *"integrated paper company, producing and selling absorbing hygiene products, packaging solutions and forest products*" (SCA, 2000). The outspoken intention was to become a more explicitly hygiene orientated company and therefore an extensive acquisition driven transformation took place with the outcome that the hygiene leg three years later (2003) was responsible for more than half of the firm's operating profit (SCA, 2003).

Even though the hygiene business generated more than half of the group's profit, SCA was still listed in Morgan Stanley's Paper & Forest Products Index, which was covered by pulp and paper analysts and comparisons were made with peers operating in the forest industry. While the previous goal with the transformation was to integrate the company forward, the further hygiene development also sought to increase shareholder value. According to the CEO at the time, Jan Åström, the increased focus on the hygiene leg of the company aimed at receiving an earnings multiple that would represent a business dominated by hygiene products.

Due to the diversification of the firm's businesses, Jan Åström felt that there were more investors starting to get similar ideas as those Custos and its CEO Christer Gardell had in 1996 to split the company in two or three parts. According to Hägglund (2001), the pressure from the capital market to split the company took place during a period where the financial press criticized SCA for having three unrelated divisions. The impression was that if earlier divestiture trends had focused on streamlining corporations due to industrial or market environmental reasons to increase competitiveness, this one seemed to be driven purely out of financial motives, where former CEO and Chairman Sverker Martin-Löf described it as corporations being divested to right and left. The market considered that hidden values would only be realized through divestment and that diversification decisions was a job for the capital owners themselves. However, most of our interviewees expressed that a split of the company at that time would have been problematic, with a belief that the separate business legs were not ready to stand on their own and thus a split would have put the firm's future at risk. Therefore, the major shareholder Industrivärden also rejected the idea of divesting the firm and continued to support SCA's vision of industrial development.

4.3 Becoming a Hygiene Player

The further transformation could be seen in the annual report of 2012 (SCA, 2012) where the description of SCA had changed to a *"leading global hygiene and forest industry company that develops and produces sustainable personal hygiene products, tissue and forest industry products."* This change was related to two major events that took place in 2012: First, SCA closed the acquisition of Georgia-Pacific's European tissue operations, a deal that had been announced in 2011 which considerably strengthened their hygiene position in their home market Europe. In the same period, they had stepwise phased out their packaging business and in connection to the acquisition they took the decision to divest the entire remaining packaging business, which was described as well-timed by CEO Jan Johansson:

> *"You can't sell and hold the cash for a couple of years, to then get the perfect timing between sell-off and acquisition, which we did optimally as we divested the packaging business and acquired Georgia-Pacific. It was a perfect match."* (Jan Johansson)

These portfolio adjustments put SCA in a precarious situation, where the hygiene part constituted 85% of the group's operating profit (SCA, 2012). However, the firm was at the time still in Morgan Stanley's Paper & Forest Products Index and thus continued to be covered by pulp and paper analysts and compared to less relevant peers. This pushed the firm closer to the earlier mentioned transformation goal presented by former CEO Jan Åström, to receive a valuation reflecting the large exposure to hygiene products, as SCA was put in a new index category (Industrivärden, 2012). Despite the distinct emphasis on the international hygiene business, the index swap did not come naturally:

> *"It was a question we worked very intensively with, we had meetings with those who decide which index the companies should be placed in order to explain our business model and why we thought we were in the wrong index."*
> (Jan Johansson)

With SCA transferred to Household Products in Morgan Stanley's Consumer Index and a similar reclassification on the Stockholm Stock Exchange (SCA, 2012), they had taken a major step to be recognized as an international hygiene player and efforts were also made to convince investors about the new identity.

4.3.1 The New Perception

Even though SCA's structure had been dominated by the hygiene leg since the early 21st century, it was still considered a forest company among many investors and therefore treated as such with its typical characteristics:

> *"[…] there are many investors that wants to avoid the extreme cyclicality in the commodity industry, therefore there is a meaning for these companies to re-profile themselves and indicate that they both have more stable growth and profitability"* (Gustaf Hansson)

Re-profiling attempts were also the case for SCA, where there had been intense promoting of a new identity which was characterized by the major roadshows that was undertaken in connection to the reclassification to explain the business model and the firm's intentions, with the aim to change investors perception of SCA. The reclassification caused major changes in analytical coverage as the previous dominance of pulp and paper analysts now was switched to consumer goods analysts as a consequence of the index swap. According to the CEO Jan Johansson, the most distinct changes concerned international analysts as the Swedish were experienced in covering several sectors simultaneously and had awareness of SCA's historical background as a forest company.

The new perception also affected the firm's ownership structure. In 2011, Swedish investors held 55% of the outstanding stock while foreign ownership represented the remaining 45% (SCA, 2011). Within a year after the reclassification, Swedish shareholders only represented 42% while the international investors now held 58% of the company (SCA, 2012), which increased to 63% in 2013 (SCA, 2013). Several of the interviewees agreed that in practice, there had not been any major changes of the firm itself other than the new consumer goods labeling, which caught international investors' attention. The larger part of the international ownership changes was related to the US (SCA, 2011, 2012 and 2013), were one of the respondents indicated that the Americans already had several large forest firms, Weyerhauser among others, and thus there were limited interest in covering an European equivalent.

4.3.2 The New Valuation

A further implication from the index swap from Paper & Forest Products to Consumer Goods in the third quarter of the financial year 2012 and the following shift regarding analyst coverage, was the effect on SCA's market valuation and earnings multiples (see figure 2 & 3 below). After a development in line with the market, SCA started an exceptional journey beginning in the third quarter of 2012 and during the financial years of 2012-2013, the firm's market capitalization climbed by 92.75% and substantially outperformed the return of 37.98% from Nasdaq OMX Stockholm (OMXSPI) by 55 percentage points in the same period (Avanza 2018a).

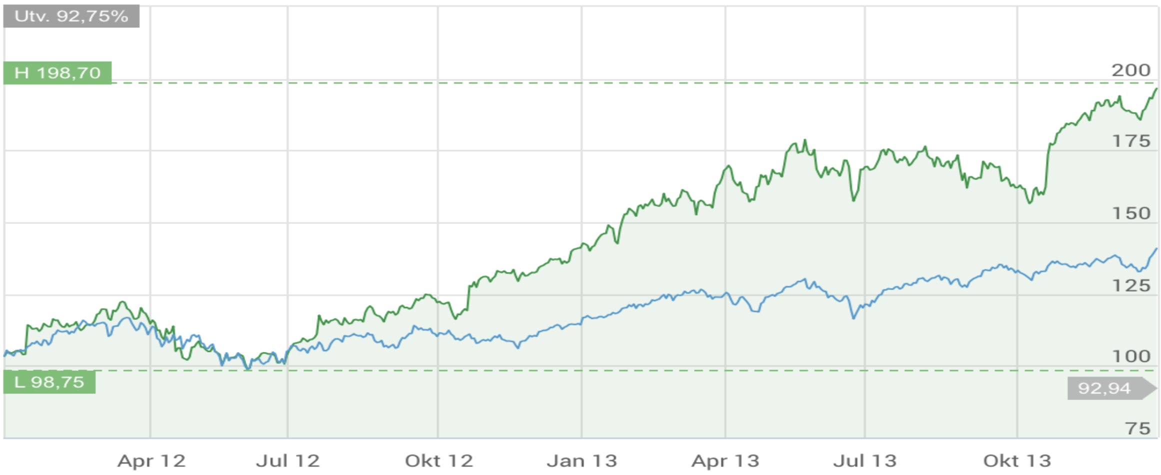

Figure 2: SCA share (green) compared to Nasdaq OMX Stockholm (Blue)

Whilst the share price soared on the stock exchange, so did the company's earnings multiples. As seen below, between 2009-2013 they saw a doubled valuation on an adjusted price through earnings ratio (P/E) basis as it went from 11 in 2009 to 22 in 2013. Similarly, the adjusted price through operating profit ratio (Price/EBIT or EV/EBIT) saw a major increase as it went from 11 to 18 in 2013, though the most distinct changes came in 2012-2013 (SCA, 2013).

SEK per share unless otherwise indicated	2013	2012	2011	2010	2009
P/E ratio [4]	25	20	N/A	13	14
P/E ratio, excluding items affecting comparability [4] [7]	22	14	13	12	11
Price/EBIT [5] [7]	20	22	47	14	13
Price/EBIT, excluding items affecting comparability [5] [7]	18	15	14	13	11

1) See definitions of key ratios on page 116.
2) Board proposal.
3) Rolling five-year data.
4) Share price at year-end divided by earnings per share after full tax and dilution.
5) Market capitalization plus net debt plus non-controlling interests divided by operating profit. (EBIT = earnings before interest and taxes).
6) Share price volatility compared with the entire stock exchange (measured for rolling 48 months).
7) Reclassified for 2010 and 2011 due to the divestment of the European packaging operations on June 30, 2012.

Figure 3: Data per share (SCA, 2013)

When asked about the reclassification and the subsequent valuation increase, a common viewpoint among the interviewees was that the index swap brought new peers to SCA. Now they were compared against international American giants such as Kimberly-Clark and Procter & Gamble in contrast to the earlier Nordic peers such as Stora Enso and UPM Kymmene. Instead, the newly arrived consumer goods analysts compared the firm's valuation with the average of the new peers and thus valued SCA higher than the earlier pulp and paper analysts due to the generally higher valuations among consumer goods firms.

Another aspect brought up during the interviews was the increased demand for the new consumer goods company's share, where the new index position forced fund managers to either make an active decision and not buy the share or a passive decision to adapt their position in line with the new index structure. As mentioned earlier, foreign ownership saw a significant increase in connection to the reclassification as the Americans in particular stepped up their holdings while the firm also pursued intense marketing campaigns:

> *"The roadshows sought to find new investors, a firm's management constantly needs to ensure that there are purchasers of the shares as there will always be sellers. If more investors want to buy than sell, then the share price will rise and thus an important aspect of being CEO is to be a salesman."* (Jan Johansson)

As the perception of SCA had changed from being treated as a volatile materials firm to be considered a member of the much less volatile consumer goods sector, the valuation became affected by the new conditions. One of the respondents reminded that volatility is translated to risk in investors' mathematical models and that if the perceived risk in a firm goes down, you will be prepared to pay more for the same cash flows.

4.4 The Return of the Forestry Firm

With SCA's new labeling and identity as a consumer goods company, the remaining forest segment raised questions among the new analysts and investors. The decision to make the largest investment in the company's history of 7.8 billion to make the forest division's Östrand pulp mill one of the biggest in the world again, left the capital market somewhat confused:

> *"If you invest 8 billion (sek) in a pulp mill, then those who had invested in what today is Essity will think: 'What?! Why are you investing 8 billion in pulp production, I thought you were selling diapers and toilet paper?'"* (Karri Rinta)

The new identity suddenly brought new challenges as the forest division and its investments had to be explained to the consumer goods analysts, where one of the interviewees considered it to be cross subsidization to invest money in the part of the company with low margins instead of investing in the firm's emerging markets exposure, creating more value for the investors who invested their money in the company for the hygiene exposure. SCA had reached a point where they needed to specify their identity:

> *"The Östrand investment highlighted something that had long been a challenge in the communication with the investor community. Does it really make sense to be a hygiene company subsidizing a forest industry firm building a pulp mill in Sweden? What do you tell investors, what's your story?"* (Linus Larsson)

With the intention to strengthen the firm's two remaining divisions' focus, the Östrand investment was followed by the decision to increase their independence, both in relation to each other and the mutual parent company.

4.4.1 The Spin-off Announcement

In August 2016 SCA, sent out a press release and announced their intention to split the company based on the structure that recently had been regrouped into forest products and hygiene (SCA, 2016b), which ended a long period of intense speculation and pressure from the capital market. The share price reacted positively and gained 7.3% on the stock market whilst investors and analysts in general greeted the initiative, which also was the case among most of our interviewees. When asked to describe the positive reaction seen in SCA's share price some stressed that the question had existed for such a long time that investors had lost hope. Though there were several alternative explanations:

> *"Analysts always want as much information as possible, which also is the case for investors and if one studies how we communicated the forest segment before the split, it was disclosed as one unit but now we have four segments."* (Ulf Larsson)

> *"It's because companies are managed better when they are focused, compared to conglomerates, with the implication that they become more valuable and in addition, it's much easier to find investors for focused units and thus their valuation should be higher, all else equal."* (Christer Gardell)

Christer Gardell further developed his reasoning by adding that multiple-unit-firms struggle with finding natural investors, which cause them to require a discount for holding the parts they dislike. Another aspect concerned the currently strong spin-off trend in general, where several transactions have been conducted throughout the years with favorable outcomes, which might have had a signaling value for other firms. It was also mentioned that investment banks might benefit from the many positive outcomes as it provides them an opportunity to push the thesis for other firms, which can be symbolized by a comment stating that there was not a single hedge fund in London who had not analyzed the split potential in SCA.

As described earlier, divestments have historically been characterized by conglomerate breakups and similar viewpoints were expressed regarding SCA. Some thought of the structure as an undramatic form of vertical integration that had been common among other Nordic forest firms throughout history. Other respondents emphasized that there no longer existed any operational synergies between the two business areas and thus they should be considered as unrelated, where one described the unrelatedness with that:

> *"There were two different capital allocation decisions in the two business areas, completely different customers and different investors in some sense, then it becomes quite naturally"* (Karl-Johan Bonnevier)

Even though some of the interviewees described the announcement as a surprise, others underlined that the spin-off only was a matter of time due to the reclassification into a hygiene business, where the forest segment only “tagged along”.

4.4.2 BSN Medical - The Establishment of a Medtech Position

Shortly after the notification of the proposed split, SCA announced the largest acquisition in the company’s history, BSN Medical, a medical solutions provider which in combination with the firm’s hygiene business constitute today’s Essity (SCA, 2016c). In an interview with the Swedish business magazine Dagens Industri, CEO Magnus Groth argued that BSN will become a platform for further investments in the medical solutions segment. (Dagens Industri, 2018) However, the split of the company was viewed as crucial according to several of our interviewees if the acquisition was to be successful:

> *“It would have become unsustainable if they would have continued as old SCA and added another business line, medical products, which ties less capital, has higher cash flows and disparate conditions. Therefore, it was necessary because otherwise you would have created a huge conglomerate.” (Karri Rinta)*

Despite that BSN Medical was believed to fit their structure and strategy well, the company once again changed their profile as they now went from describing themselves as a *“global hygiene and forestry company”* (SCA, 2015) to a “*Global Hygiene and Health Company”* after the acquisition, with a vision to expand into and consolidate the medtech segment (Essity, 2017). In an analyst report, the acquisition was described as a historical milestone comparable to the acquisition of Mölnlycke in 1975.

4.4.3 Business Reorganization - Approaching Competitors

With the proposed split in mind, both the forest division and the hygiene part of SCA changed its reporting segments. As earlier mentioned, the forest division only reported one segment in the old firm structure, compared to four with beginning in the first quarter of 2017. At the same time, the hygiene division changed its segments from *Personal Hygiene Products* and *Tissue* to *Personal Care, Consumer Tissue* and *Professional Hygiene* (SCA, 2017c). The segment structure was a copy of the one Kimberly-Clark used at the time, Essity’s major competitor

(Kimberly-Clark, 2016). The changes were appreciated by analysts and investors since it created a high degree of transparency and comparability to both SCA's and Essity's peers:

> *"It's generally value creating in itself, the stock market is often positive to it (spin-offs) as it makes things visible that previously hadn't been noticed and by highlighting them they realized their full value potential."* (Caroline af Ugglas)

As the changed reporting segments increased the transparency and comparability it also created external pressure on the companies. By revealing the potential in their own business and comparing it to highly successful peers, they also exposed the weaker parts, which according to several of the interviewees creates pressure in the organization to perform better.

4.4.4 The Split of Svenska Cellulosa Aktiebolaget

The split was approved by the shareholders on the annual general meeting the 5th of April 2017 and on June the 15th, the newly spun out hygiene business Essity began trading for the first time (SCA, 2017b). While it traditionally has been the smaller part of a firm that is spun out, SCA conducted the spin-off by distributing the large hygiene business, keeping the forest division as legal aspects made it less complicated than the opposite alternative. Though the major changes in staff occurred in SCA as most of the previous top management went to Essity as it was SCA who in practice was the spun-off part. As of the 7th of May 2018, SCA and Essity had performed a combined capital gain of 8.7%,[1] with individual returns of 55.5% and −6.98% respectively (Avanza, 2018a; 2018b) and thus the entire value creation from the split so far is attributable to the new separate forest company.

Figure 4 and 5: SCA and Essity compared to Nasdaq OMX Stockholm

[1] Calculated as the combined share prices of SCA and Essity on the 7th of May divided by the last trading price of old SCA before the spin-off.

Similar to the reclassification in 2012, the firm undertook several campaign initiatives in connection to the spin-off concerning Essity and the creation of the two new public firms. However, while the actions in 2012 sought to explain the hygiene business and market them as a consumer goods firm, these had a different emphasis:

> *"There was an enormous flow in connection to the split, we made an extensive roadshow program both for the hygiene business but in particular for the forest division, which previously had been in the shadow (of the hygiene business)."* (Magnus Groth)

The interviewees also brought up that due to the dominating hygiene business, forest investors did not invest their money in SCA as the forest exposure would be negligible, which could be seen in the ownership changes that took place in connection to and after the split:

> *"We attract somewhat different types of investors in these different parts of the company, if one studies the forest business and SCA today, then we are typically attractive for long-term capital and not least pension capital and similar"* (Ulf Larsson)

A further example brought up noted that long-term investors like pension funds possibly see SCA in another light compared to Essity regarding investment horizons and the required rate of return, which could result in a lower weighted average cost of capital (WACC) and in turn a higher valuation of the forest assets.

The previously described variance in capital use and profile can also be seen in the two separate firms' annual reports from 2017 and SCA's 2016 report. Whereas SCA highlights its forest assets and the strong pulp market, Essity puts emphasis on organic growth in sales, its positioned brands and the challenging market with rising input costs due to increasing pulp prices. Furthermore, the reports show that they use different main profit measures where SCA focus on EBITDA, while Essity use earnings before interest, taxes and amortization (EBITA) and these differences were also apparent when reading analyst reports on the two separate firms. (SCA, 2017a; Essity, 2017; SCA, 2016a)

A final thing to observe is that with the distribution of SCA's dominating hygiene business, they once again became the pure play forest enterprise it was in the foundation in 1929 and the early twentieth century.

5. Analysis

In this part of the thesis, an analysis of the empirical findings will take place with the intention to answer our research question. The analysis is structured similar to the theoretical framework and will first address SCA as a dual product, the accompanying issues and solutions. Thereafter, the shareholder reactions on the sell and spin-off will be investigated.

5.1 SCA - The Dual Product

The case study of SCA can partially confirm our theoretical framework, where Zuckerman (2000) and Gilson et al (2001) suggests that firms with a mismatch between the perceived internal corporate identity and the external identity, given by the capital market and financial analysts, will be candidates for divestment. Our empirical findings suggest that SCA struggled with this kind of mismatch already in early 2000s when they aimed at becoming an international hygiene player but was treated as the old Nordic forest company, leading to what Zuckerman described as an ambiguity in the corporate product. This unclarity was also illustrated at the time by the pressure to undertake divestment actions, where Custos with CEO Christer Gardell and other capital market actors had wished for the three-legged business to be separated.

With the events in 2011-2012, where the divestment of the packaging division and the acquisition of Georgia-Pacific took place, which later led to the reclassification, SCA instead received a clear dual product identity consisting of forest products and hygiene. Even though they got the desired changes they sought, with a new index position, more specialized analysts and an increased earnings multiple, other challenges developed as the forest business bothered the capital market who questioned their identity as a pure play hygiene firm.

As was indicated by the respondents, the spin-off was a consequence that followed from the reclassification since the forest segment constituted a mismatch towards the market and the investors that bought SCA on the premise that it was a pure play. The dual product was further distinguished when the spin-off transaction had been closed and the two new separate companies began to reveal what they considered to be the key points in their respective businesses. SCA put their emphasis on factors typically associated with firms in the materials sector, among them the use of the cash flow proxy EBITDA as their main profit measure, a distinct focus on its raw material assets (the forest) and forecasts of the price development concerning pulp and kraftliner as it has a direct impact on cash flow generation. Furthermore, the price development is also a factor they cannot control and was one of the primary reason why SCA once began to forward integrate. In the other end, Essity is the product from hundreds of acquisitions and the M&A and branding driven business is reflected in their main profit measure EBITA, which excludes amortization of acquisition-related intangible assets. Whereas SCA lacks control over the cyclical raw materials prices, Essity have the ability to affect the price faced by consumers and thus have tools for managing fluctuating input costs. As Zuckerman described, business segments with high degree of coverage mismatch will be in the risk zone of being divested, which in our case became SCA's forest products as they got more or less left out due to the changes in analyst coverage and limited size in relation to the old firm.

5.1.1 Analyst Coverage Mismatch

Like Zuckerman (2000), our thesis can confirm that the analytical coverage mismatch due to multiple corporate identities is perceived to be an important aspect regarding firms' divestment decisions. As outlined in the empirical findings, there are two historical periods in SCA that can illustrate this perception.

Ever since the creation of the three different business legs, there had been an analyst coverage mismatch where the company was covered mainly by pulp and paper analysts. As mentioned earlier, Zuckerman pointed out that segments with relatively larger mismatch are the most probable divestment candidates, which is both indicated and questioned in this thesis. In the beginning of 2012, SCA had a major coverage mismatch on its hygiene business as analyst coverage was dominated by pulp and paper analysts, specialized on the firm's packaging and forest business. According to Zuckerman, the hygiene part of the company should then have been divested but instead the packaging segment was sold off, making additional hygiene exposure possible, which further increased the coverage mismatch. However, with the reclassification that occurred in connection to the transactions, the problem became solved to some extent.

Despite that the hygiene mismatch issues were solved with the index swap, the question continued to bother the company as the forest division now was covered by the new analysts specialized in consumer goods, creating a new opposite mismatch situation. Even though the problem became less severe as the forest division constituted an essentially smaller part of the firm relative to the hygiene business, the dual identity became inconvenient due to the ambiguity it signaled against analysts and investors, leading to the spin-off of the forest segment. Though this time, SCA followed Zuckerman, divesting the segment with the larger coverage mismatch. Making the two divisions to pure play companies followed by their own specialized analysts and thereby solving the analytical coverage mismatch problem.

However, in both these decisions SCA focused on the perceived internal identity of being a hygiene company, compared to Zuckerman's focus on the external given by the capital market, who first considered them as a forest company and then a hygiene company with a forest division, disturbing the concept of being treated as a pure play. Our thesis thereby questions Zuckerman's external focus as we can see that the perceived internal identity was of importance in SCA. This is also supported by Roberts et al (2006) who state that managers were willing to de-merger businesses to enable investors and analysts to recognize what managers thought to be the actual value sources. Ever since the 2000s, the hygiene business has internally been seen as the actual value creator and thereby, the divestment of both the packaging and forest division can be seen as an action from management to clarify the firm's business model and thus divestment could be dependent on the perceived internal corporate identity rather than the external.

5.1.2 The Identity Discount

Zuckerman (2000) reasoned that in the presence of the analyst coverage mismatch, an equity discount will emerge due to the high uncertainty regarding which analysts that should cover the firm and which companies that should be considered as peers. This was also confirmed in SCA with the divestiture of the packaging segment and the following change to consumer goods analysts, which in turn was followed by a rapid improvement in SCA's stock valuation (see figure 2). The reason for the increased share price is similar to Zuckerman's conclusions, with more relevant hygiene-focused peers, the firm saw its valuation improve due to the higher earnings multiples in its benchmark. The increased valuation can also be derived from the changed analysts that were specialized on the larger business segment, implying that compared to when pulp and paper analysts covered the firm, there should overall be better forecasting possibilities, in line with the predictions of Gilson et al (2001).

As mentioned earlier, the coverage mismatch continued to bother the company after the reclassification when the forest segment now became the part with the higher degree of mismatch. This made SCA continue trading at a probable equity discount, which in turn was confirmed from the positive share price reaction, with a capital gain of 7% on the spin-off announcement. However, compared to the earlier research which has derived the diversification discounts from internal financial problems, our study confirms, like Zuckerman and Gilson, that they are not solely the reason for the discount. Even though there were only very weak signals about financial negligence in SCA, with the Östrand investment as the only example pointed out by some, they faced a significant equity discount. This can instead be related to the identity problems which prevented a valuation on the right premises due to wrong peers and analysts. Therefore, this thesis proposes that the deviation between the internal and external corporate identity is an important contributor to the equity discount.

Furthermore, what can be seen in the SCA case is that the main gain from solving the analytical coverage problem was received by the part of the company that had the highest analysts mismatch, the forest division that constitutes the new SCA. The positive share price development after the split is derived from the new forest company while the part that had specialized analysts, Essity (hygiene), has so far perceived no gain from solving the mismatch problem, which could be explained by an already fair valuation from their specialized analysts.

5.2 Two Perspectives on Supply and Demand

When discussing SCA's divestiture, many of the respondents brought up the general trend towards spin-offs and that the positive turnouts likely have a signaling value to other firms with similar ideas, while it was also mentioned that investment banks might use it as a sales argument. Gilson et al (2001) expressed similar experiences, where investment banks thought of breakups as a selling point and thus creating various supply and demand effects as well as solving coverage mismatch issues, therefore confirming spin-offs as a business solution offered by advisory firms.

Gilson further stated that investors' demand to trade a stock contribute to a breakup, which could be seen in the SCA case as the firm had two types of investors that sought either the hygiene business or the forest business but due to the large difference in terms of size, the last were forced to pass on the investment. Given investors' differences in demand, spin-offs can be a beneficial tool for divestment since it creates two new assets on the market and hence gives both investor types the possibility to trade their preferred part. This can also be seen as a consequence from the reclassification, were many of the previous investors left as foreign ownership increased dramatically when North American investors sought to invest in the "new" hygiene company. While Gilson thought of supply and demand effects in terms of investment banking and equity research services, the increased foreign interest for the reclassified SCA is rather explained by Zuckerman's corporate product identity and traditional supply and demand theories. There were already several forest companies in North America and thus the market for these kinds of firms was saturated, with no need to boost the supply with a Nordic forest company. However, by "rebranding" the forest product, they created a demand by placing it in another product category that was less crowded and thus made it easier to reach potential investors. Therefore, corporate identity appears to be important not only in relation to financial analysts, but also for firms that want to reach out with their product offering.

While the allocation of the product in the correct category is important to enhance the demand, it might also be a determinant of how to make divestments. Since it is important to be in a market with good conditions, a spin-off might not always be the best alternative for divestiture. If the market for the new business already is crowded and there is a low demand from investors to trade the division as a separate good, it might be better to divest through a sell-off. This can be seen in both SCA's major divestments, where the packaging market was very fragmented and, in addition, is a product type that is hard to diversify, therefore it could have been the belief that there would be a limited demand from investors to get an additional product in that category. In contrast, the forest division was an attractive asset among investors and distinguished itself compared to other similar companies due to the unusually large forest assets it held, thereby having better possibilities to compete on the less fragmented market. This could have been the reason why the forest division was spun-off while the packaging segment was sold to a third party. Thus, spin-offs can be thought to appear when investors demand an additional product while the sell-off might be preferable in a saturated and unconsolidated market where it's harder to be an unique investment opportunity.

5.2.1 Asymmetric Information

Nixon et al (2000), Veld et al (2003) and Gilson et al (2000) described divestments as a method to reduce information asymmetry, Gilson further suggested that post breakup firms disclose more information to the market. Before SCA announced the split, the firm had increased the independence of its two divisions and declared that it would disclose more information to investors. Though Gilson stressed that if improved segment reporting could resolve the perceived information asymmetries on the capital market it would not be necessary for companies to divest.

When studying the post-breakup firms that came from the SCA split, major changes took place. In the forest business, one segment in the combined firm became 4 sub-segments, which made substantially more information available for the capital market and simplified the work for research analysts. The hygiene part copied Kimberly-Clark's business structure, creating the greatest transparency possible. However, in addition to the increased transparency, the copying of the new peer can also be a way to enhance the perceived identity because when using the same business structure as a company with a considered hygiene profile, there should be no questions on what type of firm you are. Thus, the outcome from the split consisted of increased disclosure of information, more specialized analysts and investors, where the first two factors are pointed out by Gilson as improvers of forecasting accuracy which in turn will be beneficial for the stock's pricing. The reduced information asymmetry and improved pricing were also the motives behind Nixon et al's (2000) favoring of spin-offs from the shareholder's perspective as the pricing benefits then go to the shareholders, compared to the sell-off which depends on management's ability to identify the fair value.

5.2.2 Specialized Investors' Stock Pricing

While Zuckerman (2000) and Gilson et al (2001) thought that the stock pricing benefits came from specialized analysts and reduced information asymmetry, neither of them appears to have reflected on how specialized investors affect the pricing of the stock. Several of our interviewees expressed thoughts that more specialized investors invest on different premises, where the most common opinion concerned that diversified firms could have issues finding investors approving all business segments, which would cause them to require discounts to hold the firm's stock. The other example brought up concerned that investors might have different holding periods and WACC, with the consequence that there could be essentially different conditions underlying the valuation.

This could explain the disparate pricing effects that affected SCA when the split had been completed as they were considered to have a profile suitable for more long-term investors like pension funds, compared to the hygiene business in Essity. If valuation models tend use the market risk premium when calculating the applied WACC for the firm's valuation, there would be significant differences to pension funds with very long investment horizons, low required return and a preference towards stable bond proxies. When studying the profiles of SCA and Essity, the last offer investors an exposure to a stable cash flow stream in a relatively non-cyclical sector, while SCA's forest assets share characteristics with treasury bonds and real estate by offering steady and more or less guaranteed biological growth in their forests to a limited financial risk. Furthermore, this type of investment, with steady long-term substance growth, are probably also affected by the current interest rate environment, where the actions of central banks throughout the world hold interest rates at artificially low levels and force some investors to reallocate their capital from the bond market to alternative investments.

In addition to the current eased central bank policies, the favorable market conditions (unfavorable for Essity) regarding pulp and kraftliner prices are factors that need to be taken into consideration when reviewing the exceptional stock price performance of SCA in relation to Essity after the split. The strong markets have been a clear tailwind for SCA while Essity, one of the world's major pulp purchasers, has seen their input costs rise and been forced to negotiate their prices towards consumers. Therefore, time will tell if the split continues to be successful in a long-term perspective or if the beneficial timing and market conditions only make it a short-term story of success.

6. Conclusions and Summary

This section will summarize the findings and conclusions in the thesis and discuss their implications. Then we will comment on the validity and reliability of the study and present some suggestions for future research. Finally, we share some final thoughts.

The analysis suggests that earlier research on companies' divestment decisions does not fully capture the reasons why firms undertake spin- and sell-offs. Our goal with the study was to examine how a discrepancy between the internal corporate identity and the external given by the capital market affect the decision to divest business units. We found that differences in external and internal identity likely affected SCA to sell the packaging division and spin off the hygiene business. Like Zuckerman (2000), this suggests that theories on analytical coverage mismatch and identity as a corporate product constitute important alternative tools for understanding the equity discount and divestment decisions.

While Zuckerman (2000) argued that the units struggling with coverage mismatch are the probable candidates for being divested, this case study indicated otherwise. Instead, focus appears to have been on changing external perception rather than accepting it, which in turn would support the suggestions from Barker et al (2006) that managers' beliefs on actual value sources might influence them to undertake restructuring actions. Thus, we consider the internally perceived identity to be a more likely indicator on which business units might be subject to divestment, given that there is internal clarity among managers and staff on what type of company they represent. Furthermore, we find that theories expressed by both Zuckerman (2000) and Gilson et al (2001) can be confirmed since both Zuckerman's ideas about de-merger as a solution to the equity discount and Gilson's concerning forecast accuracy are applicable when analyzing the valuation effects from SCA's two major divestment decisions. As the authors described, more specialized analyst coverage will improve the pricing of the firm's stock and was a consequence in both mentioned events. Also, in connection to and after the split, there was an increased disclosure of information, which should support Gilson's pricing theories where the combination of industry specialists and better forecasting possibilities could explain the positive reaction on the announcement day.

Finally, the results further indicated two aspects we feel has not been mentioned in either earlier research in the area or the theoretical framework. First, in addition to the theories on asymmetric information from Nixon et al (2000) and Gilson et al's (2001) ideas about supply and demand, the decision whether to divest through a sell- or spin-off could be explained by traditional supply and demand theories. Companies will, presumably, seek the optimal price for its shareholders when divesting a unit and if the offered "product" only adds supply to an already crowded market, then a sell-off seems more likely, whereas if it's a relatively unique asset with high interest among investors, a spin-off should be the preferred method. Second, while Zuckerman (2000) and Gilson et al (2001) put their emphasis on how specialized analyst coverage affect the pricing of a firm's stock, our results suggests that more specialized investors might be an equally important factor when discussing valuation and the equity discount. A clear corporate identity then becomes important as investors' willingness to invest is affected by the sought characteristics of the firm and if there is no or little uncertainty on the firm's profile, the likelihood of receiving investors prepared to accept a higher earnings multiple will increase.

In summary, we believe that this case study both confirms and complements the existing and mainly quantitative literature on divestment motives and methods. The importance of corporate identity should be of interest for managers and boards who market their firm to investors and seek to maximize the value potential. Likewise, it could be a tool for investors screening the market in search for undervalued companies that can generate returns with active ownership policies from shareholders.

6.1 Validity and reliability

As earlier mentioned in the method section, there are both pros and cons with using a single case study. There's undoubtedly a relationship between the validity of the study and the sample size due to the limited possibility to develop significant statistical conclusions from one case. However, it allows for more in-depth analysis and hence increase the tenor of the conclusions. We are aware about that the findings of the path leading up to SCA's divestment decision might not be general and adaptable for all companies. Though, the problems with specialized investors and analytical mismatch will withstand for all firms with more than a single business, we believe that our findings can be used predictably to understand companies' divestment decisions in a generalizable way.

Similar to the usage of a single case study, there are both pros and cons with conducting interview based research. In this thesis, a semi structured technique has been used allowing for follow up questions with the benefit of potentially deeper investigation of the subject and thus increasing the opportunity to find new aspects. This however must be put against drawbacks such as response bias and subjectivity, implying that answers might be affected by the respondents' interpretation of our questions. Furthermore, qualitative data is always a subject to subjectivity, which implies that the conclusions from the same data set can be dependent on how it has been rendered. To minimize the aforesaid risk, the interviews has been made with the theoretical framework in mind without personal reflection, additionally we have taken advantage of being two as the analysis has been carried out controlling that both interpret the data in the same way and therefore we think it is possible to recompose our study.

6.2 Future Research

The structure of this thesis and the limited contemporary research in the area of modern divestitures gives the possibility for future studies. In our thesis about SCA's transformation, were focus has been on the divestments of both the packaging and forest division, we detected several different aspects that can be used to approach the subject in alternative ways. Firstly, since our study is made on a single case, we believe it would be of interest to continue with a multiple case approach, were even more interesting aspects can come through with comparison of similarities and differences among other firms. Additionally, a multiple case study would increase the validity and hence contribute to the literature with more significant and general conclusions. Furthermore, our study has taken an external approach on the subject by looking at the difference between the internal corporate identity and external. Another potential standpoint that we think could be of interest for future research is to use an internal approach and investigate how strategy, culture or management affect the decisions to make corporate divestitures. Lastly, we believe that aspects like the timing of divestitures could be of interest regarding when divestment decisions are made and how they are affected by the economic cycle.

6.3 Final Thoughts

Looking at Essity today, we can see similarities to the period around 1975 when SCA established their hygiene business and eventually consolidated the then fragmented market. As has been mentioned, Essity have taken the similar steps with the establishment of a medtech position through the acquisition of BSN medical. So far, the segment only constitutes 6% of the company's total net sales but there is an outspoken intention to consolidate the market and thus we believe that this number will increase in the coming years. Then there might be a situation where the identity question once again is brought up on the agenda, concerning whether Essity in the long run will be a hygiene company or become a medtech firm due to its new profiling in both hygiene and health. In such a case, mismatch issues would most likely arise and create a need for discussion if the consumer analysts hold the right specialty or if they should be replaced with healthcare analysts. Therefore, Essity appears to continue being a future divestiture candidate like the old combined SCA.

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8. Appendix

8.1 Appendix 1: Details of Interview Sample

APPENDIX TABLE 1
The Interview Context

Organization	The Interviewed	Title	Date of Interview	Time of Interview
SEB	Linus Larsson	SCA/Essity Analyst	12th of February 2018	14:00
SSE	Tomas Hjelström	Assistant Professor	19th of February 2018	13:00
DNB	Karl-Johan Bonnevier	Essity Analyst	26th of February 2018	13:00
Pareto Securities	Gustav Hansson	SCA/Essity Analyst	27th of February 2018	10:00
SCA	Andreas Ewertz	Investor Relations Director	5th of March 2018	14:00
Industrivärden	Sverker Sivall	Director of Communication and Sustainability	9th of March 2018	14:00
SN	Caroline af Ugglas	Former Director of Investment and Ownership Issues Skandia	12th of March 2018	16:00
N/A	Sverker Martin-Löf	Former CEO & Chairman SCA	13th of March 2018	16:00
Essity	Robert Sjöström	Senior Vice President of Strategy and Business Development	15th of March 2018	13:30
Essity	Magnus Groth	CEO and Former CEO SCA	16th of March 2018	08:30
TV 4	Jens B Nordström	Economy Journalist and Author of Tronstriden	16th of March 2018	10:00
OrganoClick	Jan Johansson	Former CEO SCA	22th of March 2018	14:00
SCA	Ulf Larsson	CEO	27th of March 2018	13:00
SHB	Karri Rinta	Essity Analyst	28th of March 2018	14:00
Cevian Capital	Christer Gardell	Founder & Managing Partner	29th of March 2018	10:30
Ahlström-Munksjö	Jan Åström	Former CEO SCA	9th of April 2018	10:00

8.2 Appendix 2: Extract from Interview Guides

Formalities

- Asking if it’s okay to record/tape the conversation
- Asking if they accept being quoted

Background

- Asking about the relation to SCA or to confirm our own background check
- Analysts were asked for how long they have covered SCA/Essity

The Transformation of SCA

- Describe the company you came to, what were the characteristics?
- Describe your view on the transformation SCA has went through.
- What was the firm’s strategy/strategies, what was the focus points?
- SCA has had a few branches in its organizational structure, would you characterize the old firm as a conglomerate, why or why not?

- In the mid 1990s, the investment firm Custos and its CEO Christer Gardell among others proposed a split, why did it not go through?
- There had been discussions concerning “hidden values”, what is your opinion about this?
- How would you describe the company’s view on shareholder value creation?
- Did SCA pursue a process of streamlining the business as, with the packaging division sell-off?
- Why was the packaging business divested but not the forest products area?
- A reclassification from materials to consumer goods took place in 2011-2012 and appears to have positively affected valuation multiples, why do you think?

The Split of SCA

- Why do you think they proposed the split?
- What were the arguments for and against the split?
- A split has been discussed for a long period of time, was the proposition expected?
- What made the question to be brought up on the agenda right now?
- What conditions were determinant for the split?
- What do you think about the current spin-off/divestiture trend, why so popular?
- Are there any long-term risks with undertaking a spin-off?
- Why a spin-off and not a sell-off?
- SCA’s stock price soared when the split was announced, what is your view on that?
- Could expectations of more transparency and information have played a role in investors’ reactions?
- How has your work been affected by the split?

The Interview End

- Are there any other issues or aspects you feel we have not discussed or that you feel important to mention?