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THE SPIN-OFF OF SONAE CAPITAL

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Abstract

The purpose of this project is to study the spin-off of Sonae Capital, which took place in January 2008. Taking the form of a case study, this project is divided between the case narrative and a teaching note. I study the background and motivation of the transaction, along with its outcome. With the available information at the time of the case, I value Sonae Capital at the date of the spin-off and describe a possible trading strategy involving both the spun-off and the demerged companies. Finally, I conclude that the transaction was more beneficial for the parent company, Sonae SGPS, and that it did not follow the typical outperformance pattern observed in other spin-offs.

Key words: Spin-off; Divestiture; Conglomerate discount; Case study

The Spin-off of Sonae Capital

"In the context of the continuing restructuring of the Sonae Group, we intend to provide Sonae Capital with adequate human, financial and management resources to permit its spin-off from Sonae SGPS in the near future. Following this spin-off, Sonae SGPS will be much more focussed on businesses which will be, directly or indirectly, closer to final consumers."[i]

— Belmiro de Azevedo, Chairman, Sonae SGPS, on March 20th, 2007

In the opening message of the Report and Accounts 2006, Belmiro de Azevedo, the charismatic leader of Sonae SGPS, a Portuguese commercial and industrial conglomerate, announced the spin-off of Sonae Capital. This subsidiary of the Sonae Group managed a business portfolio with holdings across disperse sectors, such as, real estate, tourism, energy or venture capital. In the months that followed, the transaction would be prepared and the business structure of the new company to emerge from it would undergo a profound reorganization. Now, just before the listing of Sonae Capital, Steven Daniels, a trader for Solid Investment Bank, has to assess the possible trading opportunities arising from the spin-off, taking into account that this sort of divestiture usually provides a good source of return. Could there be some hidden value in Sonae Capital to be unlocked by this transaction?[1]

[1] Although the character and the Investment Bank are fictitious, the case is based on a real-life transaction and Sonae SGPS, along with all other related companies, are real.

History of Sonae[ii]

Sonae, Sociedade Nacional de Estratificados, dates back to 1959 when it began its operation as a producer of decorative wood laminates. Founded by Afonso Pinto de Magalhães, an Oporto banker and businessman, Sonae would turn out to be one of the most important companies in the Portuguese enterprise scene thanks to Belmiro de Azevedo, who joined in 1965.

From humble beginnings, Belmiro de Azevedo managed to get a university degree at a time when studying was not accessible to many. This self-made man entered Sonae as a chemical engineer for an R&D position, but quickly progressed and assumed a higher role in the company. During the troubled times after the Carnation Revolution of 1974, with the owners of the company fleeing the country and Sonae in the verge of being nationalized, Belmiro de Azevedo managed to gather the support of the workers around the management, of which by then he was part of. The stance of the workers, going on strike in support of the prevailing management and against the interference of the state, was contrary to what was happening all around the country and turned out to be decisive for Sonae to avoid nationalization. Along with the importance of his role in the management of Sonae, Belmiro de Azevedo also became one of the main shareholders at this stage.

In the 1970s, Sonae started to diversify its businesses, with the acquisition of a particleboard factory and the entrance in the chemical industry. During the following decade, the company further diversified into tourism, insurance, media, construction or real estate. However, probably the most visible segment of the group was that of retail and distribution, with the opening of the first hypermarket in Portugal in 1985.

In 1983, Sonae was launched in the Portuguese stock exchange with a market capitalization equivalent to about €2.5 million. The year of 1987 was also a particularly interesting one in the history of the group, with the carve-outs of seven of its subsidiaries. In a controversial move, exploiting the tax benefits for companies going public, Sonae was able to raise €20 million.[iii] Taking advantage of the stock market to finance its growth has been a part of Sonae's DNA for long and this episode was just the most noticeable evidence of that.

The 1990s saw Sonae open the first modern shopping centre in Portugal, CascaiShopping. This would become a strategic area for the group, which continued to develop similar projects throughout the country and abroad. In 1998, Sonae entered the telecommunications business with the launch of Optimus, the third mobile communications operator in Portugal. In 1999, it would be incorporated in Sonaecom, the sub-holding for media and telecommunications, along with, for example, Público, a daily newspaper. One year later, Sonaecom would be listed in the Portuguese stock exchange. Before the turn of the century, Sonae also took control of bankrupt Torralta and its real estate development in the Tróia peninsula, with the intention to invest in the area.[iv]

In the year of 2005, Sonae decided to spin-off Sonae Indústria, a subsidiary in the wood-based products business. The transaction aimed to give autonomy to an already publicly listed company, increasing its free float, and, in a sense, getting rid of the "troubled son" of the group. Sonae Indústria, a reminder of the initial activity of Sonae and Belmiro de Azevedo's background, was in a very cyclical business and one greatly exposed to the construction sector. What is more, the wood-based products business was not included in the core areas of the group, nor was it correlated with

them. Accordingly, the spin-off aimed to create value from the increased focus of Sonae and the reduction of the conglomerate discount at which the group traded. During the year of 2006, both Sonae and Sonae Indústria had stock market performances similar to the Portuguese stock market index, PSI-20.

In 2006, Sonae launched a tender offer for the much larger Portugal Telecom, the major telecommunications operator in the Portuguese market. The offer was considered unsolicited and therefore hostile by the target's board. The takeover battle dragged on for more than a year and ended in defeat for Sonae, with Belmiro de Azevedo accusing the Portuguese government of interference.[v] Even though Sonae did not manage to succeed, the telecommunications market in Portugal changed, with the obligation of PT to separate the wholesale from the retail business, destroying the monopolistic position of the company across the market.[vi]

Soon after the failure of the takeover battle, Sonae announced a change in its management structure. Belmiro de Azevedo retired as CEO, leaving the job for his son, Paulo Azevedo, but remaining as Chairman. The latter was considered to be the mastermind behind the tender offer and had gained credit in the market from its leadership of Sonaecom. Overall the market reaction was positive.[vii]

At this moment, in 2008, Sonae is a holding company whose stated mission is to "control and actively manage a portfolio of companies."[viii] The portfolio is composed by Sonae Distribuição (food and non food retail), Sonae Sierra (shopping centres), Sonaecom (telecommunications) and Sonae Capital (services), each run on an independent manner. The company has a strong international presence, especially in the areas of retail and shopping centres. The group also highlights the above average

shareholder returns in the last twenty years, considering its condition of holding to be a value enhancer.[ix]

Spin-offs and Conglomerate Discounts

A spin-off is a form of divestiture by which a parent company creates a new legal entity out of a subsidiary, by issuing and distributing shares of that new company to its own shareholders, on a pro rata basis. The new company will, thus, become autonomous and have its own management team, whilst this proportional distribution of shares initially leaves both companies with the same stockholder base.

Although this type of divestiture does not generate a cash infusion to the parent company, there are several motivations to undertake it, particularly to eliminate, or at least reduce, the commonly designated conglomerate discount. A conglomerate discount "is said to apply to businesses that refuse to stick to one industry, leading to valuations considerably lower than the sum of their parts."[x] Hence, the holding company trades below the sum of valuations of its businesses.

In a 1996 study, Henri Servaes documented large diversification discounts throughout the 1960s, when the conglomerate merger wave started, but found that these disappeared in the 1970s.[xi] Berger and Ofek also found proof of conglomerate discounts for the 1986-1991 period, by comparing the sum of stand-alone values of individual business segments, with firm's actual values.[xii] Furthermore, they identified that the difference in values was smaller when activities were closer, same two-digit SIC code[2], which means that the more diversified the group, bigger the discount applied by the market.

[2] SIC: Standard Industrial Classification - four-digit codes indicating the company's type of business

There are many explanations for conglomerate discounts. First, large conglomerates have a tendency for overinvestment and cross-subsidization, that is, moving resources of better-performing segments to poorer ones. This argument was defended by Berger and Ofek[xiii] and also in the work of Lamont and Polk.[xiv] Research by Heppelmann and Hoffleith[xv] offers another explanation, namely, the holding structure itself. They defend that weak management holdings, which fail to strategically manage their subsidiaries, are responsible for conglomerate discounts. Another justification for this phenomenon is information asymmetry. Krishnaswami and Subramaniam find that once the shares of a spin-off are traded separately, its individual operating efficiency and future prospects are better understood by the market, leading to higher valuations.[xvi] If the market does not understand the business, or does not perceive the synergies between the subsidiaries, it will value the conglomerate below its true worth. Due to this higher visibility of the business being spun-off, the sum of valuations of the separate businesses will be higher than the previous valuation of the conglomerate. Other motives for the underperformance of conglomerates are concerned with the possibility of empire building and an inefficient decision-making process.

Concurrently, spin-offs have the advantage of increasing the focus of both demerging companies. Once each company focus on its specific business and the decision-making process becomes more effective, there is room for increased performance. This performance may further be related with more efficient equity-based compensation. Managers of a newly autonomous company will be rewarded based on the results of its individual business, not of the whole group, as before. Along the same lines, as investors can diversify by themselves, focused companies tend to be preferred, achieving, in this manner, higher valuations. Apart from what was mentioned until now,

regulatory reasons may also force a company to spin-off a subsidiary. Moreover, a parent may want to dispose of a subsidiary due to poor performance or because its particular business is no longer appealing to the group.

Announcements of spin-offs are generally well received by the market, generating positive abnormal returns. From their analysis of 59 cases in the period from 1963 to 1980, Miles and Rosenfeld concluded that spin-off announcements had a positive influence on shareholder wealth, especially in the case of large spin-offs.[xvii] Likewise, Schipper and Smith found positive price reaction following spin-off announcements for 93 voluntary spin-offs taking place between 1963 and 1981.[xviii]

Further, spin-offs have a tendency to outperform the market in a one to three-year basis. Evidence was found by many authors in various periods such as Cusatis, Miles and Woolridge, who detected significantly positive abnormal returns for spin-offs and their parent firms over the 1965-1988 period[xix], and Desai and Jain, who identified long-run abnormal returns for spin-offs, principally focus-increasing ones, between 1975 and 1991.[xx] More recent evidence is found when comparing the Bloomberg Spin-off Index, a capitalization-weighted index of U.S. spun-off companies, with the S&P 500. For the period between 2003 and 2007, the former outperformed the market every single year, with a compound annual growth rate of 23% against 11% of the S&P 500, as exhibited in **Table 1** and **Graph 1**. Among the reasons for these abnormal returns is also the price drop of a spin-off on the first trading day. Since some shareholders of the parent are only interested in the main company, they sell the shares of the spin-off once they start trading. As spin-offs are, in most cases, specific businesses, which were non-core for the parent company, they may not fit their investment policy for instance, in terms of industry, geography or beta range.

Other types of divestitures include a sell-off, direct sale of a piece of a company to a third party, or an equity carve-out, creation of a new company from a subsidiary where a minority interest is sold to the public through an IPO or a trade sale. Although the latter involves the creation of a new company, just like a spin-off, this form of divestiture provides the parent with a cash infusion and leaves the subsidiary with a different stockholder base. The 7 IPOs of Sonae's subsidiaries in 1987 were examples of equity carve-outs. From the analysis of a wide number of transactions between 1981 and 1998, Eric Powers determined that carve-out divisions are more profitable than spin-off divisions and that firms choosing a carve-out or a sell-off are often more leveraged and, thus, opt for one of these cash-generating divestitures.[xxi]

The spin-off of Sonae Capital

On March 20th, 2007, in the Chairman's Statement of the Report and Accounts of 2006, Belmiro de Azevedo announced the intention to spin-off Sonae Capital, in the context of "the continuing restructuring of the Sonae Group."[xxii] In that opening message, which also revealed Paulo Azevedo as the new CEO, it was claimed that the spin-off would leave Sonae SGPS more focused on businesses closer to the final consumer.[xxiii] By this time, Sonae Capital had a complex structure, with sub-holdings in diverse areas such as Tourism, Engineering, Real estate and Insurance. In the subsequent months, this business portfolio would start to be reorganized.

The Board of Directors of Sonae SGPS approved, on November 8th, the demerger project[xxiv], which foresaw the transfer of its entire shareholding in Sonae Capital to a new company at book value, hence without tax implications. In exchange, shares of the Sonae Capital would be issued and attributed to Sonae SGPS shareholders,

in the proportion of 0.125 shares of Sonae Capital for each share of the parent. This leaves the new company with a share capital of €250 million corresponding to 250 million shares with nominal value of €1. In an extraordinary general meeting of shareholders, taking place on December 14th, the demerger project passed[xxv] and, after the registration of the transaction, the admission of the shares to Euronext Lisbon was requested.[xxvi] After a period of separate trading of demerger rights, the listing of Sonae Capital will finally take place on January 28th. Sonae Capital was appointed its own management team, with Belmiro de Azevedo taking the roles of Chairman and CEO, and its shareholder structure expected to be similar to that of Sonae, with Efanor Investimentos, owned by Belmiro de Azevedo, as a majority shareholder, **Figure 1**.

The rationale for the operation is essentially, as mentioned, the increased focus of Sonae SGPS on businesses closer to the final consumer and, simultaneously, on business operations with significant size or an active or intended international presence.[xxvii] At the same time, giving more visibility to Sonae Capital allows for a more adequate perception of its value. By spinning-off Sonae Capital and distributing its shares to Sonae SGPS shareholders, the transaction will also give liquidity to the stock, which is expected to have a considerable free float, and make it subject to the rules of the market.[xxviii] As a result, both companies will be better perceived by the market, since whoever wants to invest in the better-known businesses of the group, as retail and shopping centres, will hold shares of Sonae SGPS, whereas others intending to be exposed to the tourism sector, for instance, will buy shares of Sonae Capital.

Another important aspect related with the demerger is that, with a capable management team, including Belmiro de Azevedo himself, concentrated only on Sonae Capital, its businesses have better chances to flourish than before, while integrated in

Sonae SGPS. Finally, taking into account that the portfolio of Sonae Capital includes significant holdings of real estate, in a period when it is unclear how the subprime crisis in the US will affect the real estate markets elsewhere, the spin-off is an opportunity for Sonae SGPS to reduce its exposure.

In general, the market reaction to the spin-off was favourable with analysts positively evaluating the intentions of the company[xxix] (**Table 2**). The share price of Sonae SGPS soared by the combined effect of the announcements of the year results, the new CEO and the spin-off. The disclosure of financial information for Sonae Capital, some months later, was also well taken by the market.[xxx] This was the first time the market could analyse the financial results of Sonae Capital individually and not just the contribution to the results of Sonae SGPS, giving a taste of the transparency that will follow the spin-off. The share price performance of Sonae SGPS after the announcement is exhibited in **Graph 2**.

As previously mentioned, Sonae SGPS decided to reformulate Sonae Capital's business portfolio before the spin-off. Consequently, at this stage, after the acquisition and sale of certain assets, Sonae Capital's businesses are divided between Sonae Turismo and Spred. The former was created in 1994 and has been a part of Sonae Capital since 2006. The aim of this sub-holding is to develop high quality tourism resorts and residential buildings, manage real estate assets and provide a series of touristic operations.[xxxi] The other sub-holding, Spred, divides its activities between Seed & Venture Capital, Joint Ventures and a portfolio of other investment shareholdings.[xxxii]

Located in the Tróia peninsula and previously owned by Torralta, the Troiaresort project is the main endeavour of Sonae Turismo. The Tróia Tourism development area is divided in eight Operational Planning and Management Units

(UNOPs) and Troiaresort is established in the first four. The project includes real estate development, with different types of apartments and villas, three aparthotels under refurbishment, a marina and a concession for the river-crossing public transport service between Setúbal and Tróia, Atlantic Ferries. The total projected investment for UNOPs 1-4 amounts to €400 million. In UNOP 3, Sonae Capital has a 75% stake in the company managing a golf course currently under improvement works and a 5-star hotel resort is also planned. UNOP 5 is owned by Sociedade Imobiliária Tróia B3, in which Sonae Capital has a 20% shareholding, whereas UNOPs 7 and 8, Soltróia, constitute a real estate development project in the initial planning phase, wholly owned by Sonae Capital. **Tables 3-6** in the appendix summarize the developments of Tróia and show a range of valuations by research analysts for some of them.

Outside Tróia, under Sonae Turismo, Sonae Capital operates other touristic activities, which include two recently refurbished hotels, Porto Palácio in Oporto and Aqualuz in Lagos, Algarve, and Solinca, a network of Health & Fitness Clubs. In addition, the company owns other real estate, with projects in the high quality residential development and the real estate asset management segments together with a stake in Imosede Real Estate Investment Fund. **Tables 7** and **8** display data for the two hotels owned by Sonae Capital outside Tróia and European hotel market multiples respectively, while **Table 9** includes information on Solinca Health & Fitness Clubs. An independent valuation for the real estate owned by Sonae Capital (except Tróia) was performed by Cushman & Wakefield[xxxiii], the results of which are presented in **Table 10**. **Table 11** contains information regarding Imosede as of December 2007.

Under Spred, the main activities relate to Joint Ventures and financial investments since, at this time, there are no shareholdings in the Seed & Venture Capital

area. The most important Joint Ventures are TP, 50% of the development of cogeneration and wind power projects in partnership with the Endesa Group (**Table 12**); Selfrio, 70% in a holding company with shareholdings in the areas of refrigeration and air conditioning (recently acquired 35% for €22 million[xxxiv]); Box Lines, a shipping company focused on the Portuguese islands of Madeira and Azores (**Tables 13** and **14**); and 50% in Choice Car, a company with affiliates in rent-a-car, fleet management and car retail. Up until recently, Contacto, a general contract construction company, was part of Spred's portfolio, but it was sold earlier this year for €81 million[xxxv], representing a net cash inflow of €17.5 million and an estimated capital gain of €47 million.[xxxvi] The relevant minority investments include 50% in Change Partners, a venture capital company, 25% in Norscut, owner of a concession of a shadow-toll highway in the North of Portugal, and 6.081% in Sonae Indústria. Book values for the shareholdings in Choice Car and Change Partners are presented in **Table 15**, a range of valuations for Norscut is given in **Table 16**, and **Table 17** shows the evolution of Sonae Indústria's average share price in the last year. Finally, the net debt of Sonae Capital amounts to €267 million.[xxxvii]

As it is perceivable, Sonae Capital will be a holding company of a rather complicated portfolio of uncorrelated and diversified businesses. If one advantage of spin-offs is to reduce the so-called conglomerate discount, in this case, the transaction may create an even more complex conglomerate than Sonae SGPS ever was. While the on-going reorganization of Sonae Capital's business portfolio, depending on its pace and effectiveness, may have an influence, there is the risk that the market applies still a greater conglomerate discount to the new company. Therefore, at this point, it is unclear how much the company is worth, and how it will be valued by the market.

There are two other risk factors associated with the transaction. First, although expected, analyst coverage is not yet guaranteed. The visibility of a spun-off company is greatly affected by analyst coverage and so is its stock price. Second, this is a particularly difficult time for stock markets worldwide, with the PSI-20 and the S&P 500 accumulating losses of 18% and 10% respectively, since the end of 2007.

The decision

There are various aspects Daniels should consider when deciding whether or not to invest in Sonae Capital. First, should he rely on typical spin-off outperformance, considering the specific characteristics of the company? How will the market value the company, taking into account its complexity? Is it possible that these non-core assets have significant hidden value, or are these just the bad businesses that Sonae SGPS did not want? Is Tróia a great opportunity or is it a great relief for Sonae SGPS to let it go? Is this the right time to be highly exposed to tourism and real estate? Could there be good opportunities coming from the seed & venture capital areas? How will the need for investment affect the cash flow generation, and when will those cash flows appear? Finally, is this a good time for a new company to enter the stock market?

In like manner, Steven Daniels must consider the possible investment opportunity in the parent company. Are the benefits of the spin-off already incorporated in the stock price of Sonae SGPS? If the spin-off really is beneficial for the parent, will it be able to keep, or even surpass, its track record of the last twenty years?

Finally, shall Daniels buy shares of Sonae Capital once they become listed? What about Sonae SGPS? Should he invest in the parent company, following this spin-off?

Teaching Note

This case study has the objective to study the spin-off of Sonae Capital. Students should understand the reasons why the company performed this form of divestiture, along with the risks associated. A set of proposed questions follows, together with the suggested responses. Finally, the outcome of the transaction is approached in the last section.

Discussion Questions

How much is Sonae Capital worth? Using the available data, perform a valuation of the company, indicating a target price per share.

Given the lack of information and the diversified nature of Sonae Capital's portfolio, a sum of parts valuation was performed, with several assumptions. Some of the businesses were valued using simplifying methods and some shareholdings were ignored due to their minor importance and small impact in the total value of the company. It is worth mentioning as well that the insurance brokerage business was held by a subsidiary of Sonae Capital, but was acquired by Sonae SGPS for an undisclosed value and so, was also not taken into account.

Starting with Tróia's real estate, from the data provided by the company on the Promissory Purchase Agreements (**Table 4)**, it was observable that the average sale prices per square meter of the apartments and villa plots were approximately €4,000 and

€3,000 respectively. These were used as the sale prices for the remaining apartments and villas for sale. Additionally, since none of the developments was completely sold and they faced different development stages, distinct maturity discounts were applied. These relate also to the possible contamination effect that the real estate crisis in the US could have in Portugal. The valuation of Tróia's Real estate is disclosed in **Table 18**, in the Appendix II.

For two of the hotel units of the group, Aqualuz Lagos and Porto Palácio, revenue data was provided in **Table 7**. Knowing that the aparthotels in Tróia would together have 1,100 beds, the number of rooms was assumed to be 380, by comparison with the ratio of beds/room of Aqualuz Lagos. The revenue per available room (RevPAR) for Aqualuz was assumed to be €60, the value implied by the turnover of the third quarter of 2007, since, although these three months represent the high season, this was also the first quarter after the refurbishment works. Seeing that the units in Tróia would be aparthotels as well, RevPAR was expected to be similar. Here it was assumed to be €70, attributing a small premium to the unique location of Tróia. For Porto Palácio, as the implied RevPAR of almost €128 seemed to be hard to sustain, a RevPAR of €100 was assumed. From the European Market Multiples shown in **Table 8** an EV/Sales multiple of 3x was assumed and maturity discounts were also applied owing to the construction works still in progress in the Tróia units and the recent refurbishments of the other two developments. The valuation for the hotels is exhibited in **Table 19** in the Appendix II.

As a consequence of the lack of data and the fact that none of them were finished and operating, the other Tróia developments were valued using simplifying methods. Consequently, the operation of Atlantic Ferries was attributed the value of the

tangible assets in progress of the ferry boats, the marina was valued at the tangible asset in progress as well, whereas the stakes in the other UNOPs (Golf, hotel resort, Tróia B3 and Soltróia) were valued at the minimum of the range of valuations by research analysts presented in **Table 6**. The total valuation of Tróia was obtained by summing each of the described projects and subtracting the projected future investment of €400 million. The result is shown in **Table 20** in the Appendix II.

For the remaining touristic operation outside Tróia, Solinca Health & Fitness Clubs, the released results for the first six and nine months of 2007 and a range of EV/EBITDA multiples used by research analysts were supplied in **Table 9**. The EBITDA of September 2007 was considered to be the full-year one for a matter of conservativeness, and the EV/EBITDA assumed to be 8x. The final value is given in **Table 21** in the Appendix II.

Sonae Capital also owned other real estate, either directly or through its stake in Imosede Real Estate Investment Fund. For the former, the Cushman & Wakefield calculated market value was used (**Table 10**), including only 20% of the opinion of value in order to be conservative and in light of the potential impact the real estate crisis in the US could have in the Portuguese market. As for the stake in Imosede, Sonae Capital's share of the Net Asset Value of the fund was considered.

Under Spred, the 70% stake in Selfrio was valued at €44 million, since 35% had been recently acquired for €22 million. For Box Lines, the EBITDA for the full year 2007 was projected from the results disclosed by the company (**Table 13)** and an EV/EBITDA of 7.5x was used, in line with maritime transport market multiples (**Table 14)**. Box lines valuation can be observed in **Table 22** in the Appendix II. Norscut was valued by the minimum of the range of valuations, presented in **Table 16**, while the

shareholdings in Change Partners and Choice Car were valued at their respective book values displayed in **Table 15**. TP, the JV responsible for the electricity developments, had three projects operating at that time, two of wind power and one of cogeneration, plus another one for future production, ENEOP. These projects were valued using the middle point of the EV/MW range of multiples by research analysts, noting that the one for ENEOP already includes the necessary investment. To the latter, a maturity discount was also applied, as perceivable in **Table 23** in the Appendix II.

Finally, the 6.081% shareholding in Sonae Indústria had to be taken into account. As it is observable in **Table 17**, the average share price of Sonae Indústria decreases as we narrow our observation period, depicting a decreasing trend in the stock price. For a matter of conservativeness and considering the performance of stock markets worldwide in late 2007 and early 2008, the one-week average share price was used. These calculations are visible in **Table 24** in the Appendix II.

After summing the values of each business composing Sonae Capital, the total Enterprise Value is attained. To get the total value of Equity two other adjustments have to be made. First, the sale of Contacto has to be accounted for. Since the total consideration to be paid to Sonae Capital was not certain at the time of the case and would depend on the amount of cash and equivalents in the company, the value attributed was the capital gain estimated from the transaction, €47 million. In addition, the value of Net Debt had to be subtracted. This was estimated to be €267 million, already adjusted for the sale of Contacto. Applying a 20% holding discount and considering the 250 million shares outstanding, a price per share of €1.58 was reached. The total valuation for Sonae Capital is revealed in **Table 25** in the Appendix II.

What are the positive and the negative aspects of the spin-off for both the parent and the new company? Is this a good deal for both? Which company is better/worse off?

There are several aspects surrounding this transaction that deserve to be analysed in the perspective of both the parent and the spun-off company. Starting with the increased focus, one of the reasons given by Sonae to support the decision to undertake the spin-off and a common benefit of this type of divestiture. While conglomerates have a tendency to move resources from better to worse preforming segments[3], as previously mentioned, with the spin-off, Sonae SGPS would be able to focus solely on its core businesses as retail and shopping centres. At the same time, Sonae Capital would be able to focus on its own projects, both the current and the prospective ones. A fully dedicated management team, including Belmiro de Azevedo, should also be more capable of continuing the revision of the business portfolio, turnaround the low-performing segments and identify new business opportunities.

Taking into account that, in spite of the demerger, the two companies would continue to have close relationships, the Chairman for example would be the same, it was foreseeable that they would be privileged trading partners to one another. Thus, despite autonomous, either of them could be a favourable supplier/client to the other, which may have been an advantage, in particular for the newly independent Sonae Capital.

At this time, Sonae Capital was a holding company, not directly engaged in any operation and, for that reason, dependent on the cash flows generated by its affiliates.

[3] Lamont, Owen A., and Christopher Polk. 2002. "Does diversification destroy value? Evidence from the industry shocks." *Journal of Financial Economics*, 63(1): 51-77.

Since the segments integrated under Sonae Capital were the ones Sonae SGPS considered to be non-core, there was the risk the new company was only getting the "bad" businesses of the group. Furthermore, as some of these businesses had shown poor results in recent times, and others were still in need for substantial investment in construction and refurbishment works, their cash flow generation was unpredictable.

A significant share of Sonae Capital's business was devoted to tourism and real estate, sectors highly correlated with the evolution of the economy and consumer confidence. In spite of the focus in the high-end markets of touristic resorts and second home, the timing of the spin-off was an unusually risky one to have this exposure, with the subprime crisis in the US threatening to contaminate the global real estate market. The main example was Tróia, despite the great opportunity, even opening the door for similar projects to be developed elsewhere, this might not have been the correct time to be so dependent on it. That said, it seems more beneficial for Sonae SGPS to have reduced its exposure to real estate and tourism than it was for Sonae Capital to have it.

An independent Sonae Capital would be more capable of pursuing new business opportunities, mainly through its Seed & Venture Capital division. However, whilst good opportunities may in fact have existed, Sonae Capital would still face the first mover risk. Although the autonomous condition was preferable to take advantage of new opportunities, the prevailing circumstances of the company may not have been the desired ones. With great investment to be made and not many stable cash flow generating businesses, the company was in a difficult position to enter new and uncorrelated ventures.

One of the focal points of the spin-off concerns the way the market would perceive and value Sonae Capital. The transaction would give visibility to the new

company, which could be better understood by the market. In general, as mentioned before, the separate trading of shares leads to higher valuations, as the market understands the new company better.[4] The separate trading of the shares of both companies makes their investment identity clearer, allowing investors to adapt according to their preferences. Thus, many investors drop the shares of the spin-off company on the first trading day, leaving these shares trading at discount and hence creating a good investment opportunity. Moreover, as already discussed, spin-offs have a tendency to outperform the market[5], in part as a result of this first day drop in price.

The way the market would perceive the new company could, likewise, benefit from analyst coverage, albeit not certain before the listing, and the presence of Belmiro de Azevedo in the management team. Not only would Sonae Capital profit from his leadership and devotion to the management of the company, but also from his reputation. Belmiro de Azevedo's capabilities were widely recognised, and his appointment as Chairman and CEO could send a strong signal to the market.

Conversely, the spin-off by itself may not have been enough for the market to perfectly understand the company. The challenges faced by the market to value Sonae Capital as a subsidiary of Sonae SGPS would still be encountered once it became autonomous. Unlike most spin-offs, the new company would not be concentrated on a specific sector. On the opposite, Sonae Capital would have a complex structure of diversified and uncorrelated businesses. Even with more information disclosed, there was nonetheless a strong risk that some of the smaller subsidiaries were attributed a value of zero.

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[4] Krishnaswami, Sudha, and Venkat Subramaniam. 1999. "Information asymmetry, valuation, and the corporate spin-off decision." *Journal of Financial Economics*, 53(1): 73-112.
[5] Cusatis, P.J., J.A. Miles and J.R. Woolridge. 1993. "Restructuring Through Spin-Off: The Stock Market Evidence." *Journal of Financial Economics*, 33: 293-311.

By the same token, for the market to react positively to the listing, it would have to believe there was some hidden value to be unlocked by the spin-off. If the former non-core assets of Sonae SGPS did have some hidden value, the market would eventually recognise it, yet, if the market perceived them as only the low-performing businesses that Sonae did not want, the reaction would be unfavourable.

There are other factors that could undermine the usual spin-off outperformance. First, one should note that Sonae Capital was to be listed in the Portuguese Stock Market, not an example of development and liquidity, and therefore may not have followed the typical performance pattern of spin-offs in other markets. Second, the market timing could prove disastrous. With the already mentioned market conditions, once investors of the parent, not interested in the spin-off, disposed of their shares, there was a high risk of demand shortage.

In the end, at the time of the spin-off, Sonae Capital was in fact a more complex conglomerate than Sonae SGPS had previously been. Whilst Sonae SGPS had specific core businesses and a variety of smaller ones, Sonae Capital was to be formed exclusively by these small companies, which, for the most part, did not have synergies among them. As mentioned before, there is evidence that conglomerate discounts tend to be bigger, the more diversified a company is.[6] In this manner, Sonae Capital would still be a conglomerate, but without the common advantages, that is, with no stable cash flow generating businesses to sustain the new growth opportunities. The great risk of this spin-off was therefore, in my opinion, that the reduction of the conglomerate discount of Sonae SGPS would come at the expense of an even greater conglomerate discount of Sonae Capital.

[6] Berger, Philp G., and Eli Ofek. 1995. "Diversification's effect on firm value." *Journal of Financial Economics*, 37(1): 39-65.

The reorganization process of the new company, which was still in progress at the time of the case, could have played a decisive role. The revision of the portfolio of Sonae Capital could have made it less confuse and more focused, while, concurrently, having a positive impact in the financial results of the company. The success of this process would depend on what businesses were eventually sold, and at what price. The prevailing state of the market may not have been the desired one to get the best deals in the alienation of some of these businesses, which makes it further unlikely that the reformulation would substantially reduce the conglomerate discount of Sonae Capital.

Summing up, in my opinion, the spin-off would be more advantageous for Sonae SGPS. This divestiture would not be as satisfying for Sonae Capital and would not be as positive as spin-offs tend to be. Nevertheless, the main benefit for the new company should have been the fully dedicated management team, which would include Belmiro de Azevedo. Overall, albeit not perfect, the spin-off may still have left Sonae Capital better off, if the reorganization of the business portfolio turned out to be effective and the current and prospective projects delivered on their expectations.

Should Steven Daniels invest in Sonae SGPS and/or Sonae Capital? What kind of trading strategy should he follow?

Ordinarily, the price of a spin-off drops in its first trading day, since, as already mentioned, many shareholders of the parent are not interested in the new company. With this in mind, and considering the price reached of €1.58 per share, a possible trading strategy would be to buy shares of Sonae Capital at the end of the first day, if the price dropped below this threshold. However, Sonae Capital did not seem like a

typical spin-off, which tends to outperform the market in a one to three-year basis. Unlike most spin-offs, which are specific businesses, Sonae Capital would control a complex portfolio of diversified and uncorrelated shareholdings. Considering the specificity of its business portfolio, the exposure to real estate and the market timing, the outlook for Sonae Capital was not as bright as that of other spin-offs. That said, a long-term strategy of buy and hold was not advised. Instead, Daniels should have sold his position not long after, once the price surpassed his threshold and yielded him an adequate return.

Conversely, taking into account Sonae Group's track record of market outperformance and the benefits of the spin-off for the parent company, Daniels should have taken a long position on Sonae SGPS. Even if these benefits were already partially incorporated in the stock price, there was no reason to believe that Sonae would not continue to outperform the market, after a transaction that left the company better off.

What Happened

January 3rd, 2008 was the last day Sonae SGPS shares entitled its owners to demerger rights, which could be traded or eventually converted into shares of Sonae Capital. The stock closed at 1.91€ and, in the following day, this price was adjusted according to the 0.125 factor. This implied, at this point, a theoretical price of €1.91 for Sonae Capital, equal to the parent's. Before the period of trading of demerger rights, analysts valued them above that adjustment, at around €0.37[7], implying a theoretical price per share of €2.29 for Sonae Capital. Against these predictions, the rights opened at €0.23 on January 9th and would close at €0.21 on January 15th, suggesting a

[7] Jornal de Negócios (January 9th, 2008)

theoretical price of €1.68. When Sonae Capital finally arrived to the market, on January 28th, it would open at €1.57 and close at €1.44. Although analysts had mentioned the state of the market and the holding nature of the company as potentially damaging to the performance of the stock[8], the market reaction to the listing was worse than they had predicted. Notwithstanding, the price recovered in the following days and Investment Banks were still optimistic on the potential for appreciation, as perceptible from the price targets shown in **Table 26** in the Appendix II.

It is important to assess how the spin-off affected the welfare of an investor who owned shares of Sonae SGPS and opted to keep the demerger rights until they were converted into shares of Sonae Capital. For a matter of simplicity, since for every eight shares of Sonae SGPS held, an investor received one share of Sonae Capital, let us compare the value of the portfolio of an investor who owns precisely eight shares of the former, still including demerger rights, that is, before January 3rd, with the final value after the spin-off, when the portfolio was composed by eight shares of Sonae SGPS and one share of Sonae Capital. **Graph 3** and **Table 27** in the Appendix II show that the value of this imaginary portfolio dropped during this period. From this analysis, it is clear that value is destroyed and this particular investor is worse off after the transaction.

As a note of caution, the state of the stock market must be taken into account. Nevertheless, if the period from one month before the last day Sonae SGPS shares traded with demerger rights to one month after the spin-off is analysed (December 3rd to February 28th), data shows that Sonae SGPS had a negative return of 40%, against a loss of 15% by the PSI-20. If the analysis is focused only on the period after the end of the

[8] Ibid.

demerger rights (January 3rd), Sonae still has a greater loss than the index, -25% against -12%. What is more, one month after the spin-off, the shares of Sonae Capital were trading 1.3% below the opening price, 7.74% below the price implied by the trading of demerger rights and more than 18% below the price implied by the adjustment of Sonae SGPS shares to the detachment of demerger rights. From this, it is concluded that the decreasing value of the imaginary portfolio is not only the result of the stock market timing, since both companies underperformed the Portuguese Stock Index (**Graph 4** and **Graph 5**, Appendix II).

Another relevant examination is on the attractiveness of Sonae Capital as an investment for someone who did not own shares of Sonae SGPS. To that aim, a further analysis on the stock price evolution is due. Spin-offs frequently provide good investment opportunities since their price drops on the first trading day and they normally outperform the market on a one to three-year basis. In the case of the spin-off of Sonae Indústria, if the low point in the week after the listing is considered, the company only beat the market on a one-year basis, failing to do it if we extend the horizon. The demerged company, Sonae SGPS, outperformed the PSI-20 both on a one and a two-year basis (**Graph 6** in the Appendix II). When the more recent case is examined, data shows that regardless of the horizon, both the parent and the spin-off underperform the market, as evident in **Table 28** and **Graph 7** in the Appendix II.

To conclude, irrespectively of the state of the market, one certainly cannot consider the spin-off a success by its stock market performance. Moreover, this spin-off did not provide a good investment opportunity for someone who bought the shares after the first trading day and held on to them for the following years, in contradiction with evidence from most spin-offs.

[i] Report and Accounts 2006, Sonae SGPS
[ii] This section has as main reference the website of Sonae SGPS
[iii] Diário de Notícias (February 27th, 2006)
[iv] Jornal de Negócios (November 30th, 1999)
[v] Jornal de Negócios (March 20th, 2007)
[vi] Jornal de Negócios (September 28th, 2006)
[vii] Jornal de Negócios (March 21st, 2007)
[viii] Sonae SGPS Management Presentation, Citi Group Small & Mid Cap Conference, October 18th 2007
[ix] Ibid.
[x] "Tyco makes the break". The Economist (March 13th, 2006)
[xi] Servaes, Henri. 1996. "The Value of Diversification During the Conglomerate Merger Wave." *The Journal of Finance*, 51: 1201–1225.
[xii] Berger, Philip G., and Eli Ofek. 1995. "Diversification's effect on firm value." *Journal of Financial Economics*, 37(1): 39-65.
[xiii] Ibid.
[xiv] Lamont, Owen A., and Christopher Polk. 2002. "Does diversification destroy value? Evidence from the industry shocks." *Journal of Financial Economics*, 63(1): 51-77.
[xv] Heppelmann, Stefan, and Marco Hoffleith. 2009. "Holding structure – from Conglomerate Discount to Management Value Added." *Stern Stewart Research*, 36.
[xvi] Krishnaswami, Sudha, and Venkat Subramaniam. 1999. "Information asymmetry, valuation, and the corporate spin-off decision." *Journal of Financial Economics*, 53(1): 73-112.
[xvii] Miles, J. A., and J. D. Rosenfeld. 1982. "An Empirical Analysis of the Effects of Spin-Off Announcements on Shareholder Wealth." *Financial Review*. 17: 21.
[xviii] Schipper, Katherine, and Abbie Smith. 1983. "Effects of recontracting on shareholder wealth: The case of voluntary spin-offs," *Journal of Financial Economics*, 12(4): 437-467.
[xix] Cusatis, P.J., J.A. Miles and J.R. Woolridge. 1993. "Restructuring Through Spin-Off: The Stock Market Evidence." *Journal of Financial Economics*, 33: 293-311.
[xx] Desai, Hemang, and Prem C. Jain. 1999. "Firm Performance and Focus: Long-run Stock Market Performance Following Spinoffs." *Journal of Financial Economics*, 54(1): 75-101.
[xxi] Powers, Eric A. 2001. "Spinoffs, Selloffs and Equity Carveouts: An Analysis of Divestiture Method Choice." *Social Science Research Network*, Working Paper Series, 31-50.
[xxii] Report and Accounts 2006, Sonae SGPS
[xxiii] Ibid.
[xxiv] Announcement to CMVM: "Sonae SGPS, SA announces demerger project" November 8th 2007
[xxv] Announcement to CMVM: "Sonae - SGPS SA announces the approval of the demerger project" December 14th 2007
[xxvi] Announcement to CMVM: "Sonae - SGPS SA announces the final registration of the demerger" December 17th 2007
[xxvii] Prospectus for the listing, Sonae Capital, December 2007
[xxviii] Demerger project of Sonae SGPS, November 8th 2007
[xxix] Jornal de Negócios (March 21st, 2007)
[xxx] Jornal de Negócios (August 30th, 2007)
[xxxi] Demerger project of Sonae SGPS, November 8th 2007
[xxxii] Ibid.
[xxxiii] Property Valuation of the Resorts and Residential Development and Asset Management (excluding Tróia) businesses of Sonae Capital - Cushman & Wakefield, 30th September 2007
[xxxiv] Announcement to CMVM: "Sonae - SGPS, SA announces acquisition and disposal of equity by its subsidiary Sonae Capital, SGPS, SA." May 28th 2007
[xxxv] The total consideration to be paid may be adjusted for a period of 5 years;
[xxxvi] Announcement to CMVM: " Sonae Capital - SGPS, SA announces acquisition of Contacto - Sociedade de Construções, SA." January 3rd 2008
[xxxvii] Addendum to the Prospectus for the listing, Sonae Capital, January 2008

A Work Project, presented as part of the requirements for the Award of a Masters Degree in Finance from the NOVA – School of Business and Economics.

THE SPIN-OFF OF SONAE CAPITAL

Appendix

DIOGO VINHA NOVA DANIEL, STUDENT NR. 705

A Project carried out under the supervision of:

Professor Paulo Soares de Pinho

January 7th, 2015

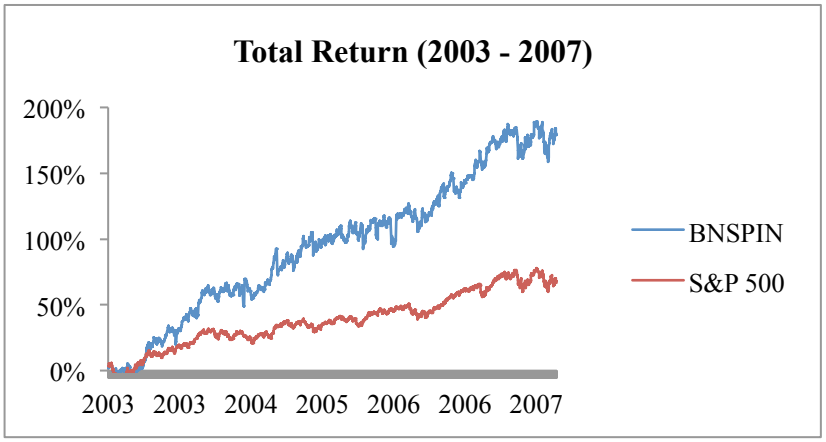
Appendix

Table 1 - Bloomberg Spin-off Index vs S&P 500

	2003	2004	2005	2006	2007	TOTAL	CAGR
BNSPIN	42%	26%	7%	19%	15%	180%	23%
S&P 500	26%	9%	4%	12%	4%	67%	11%

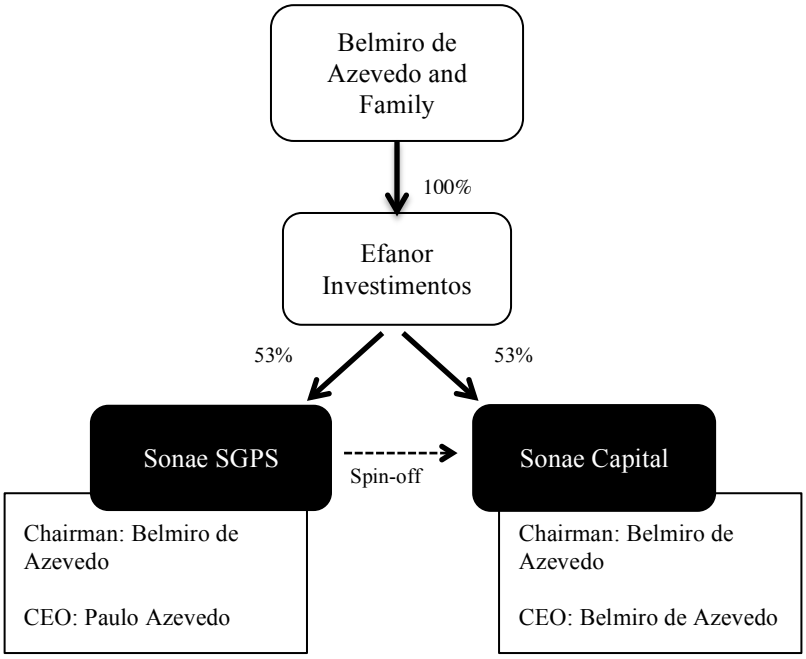
Source: Casewriter. Data from Bloomberg

Graph 1 - Bloomberg Spin-off Index vs S&P 500



Source: Casewriter. Data from Bloomberg

Figure 1 - The Azevedo family and the Sonae group



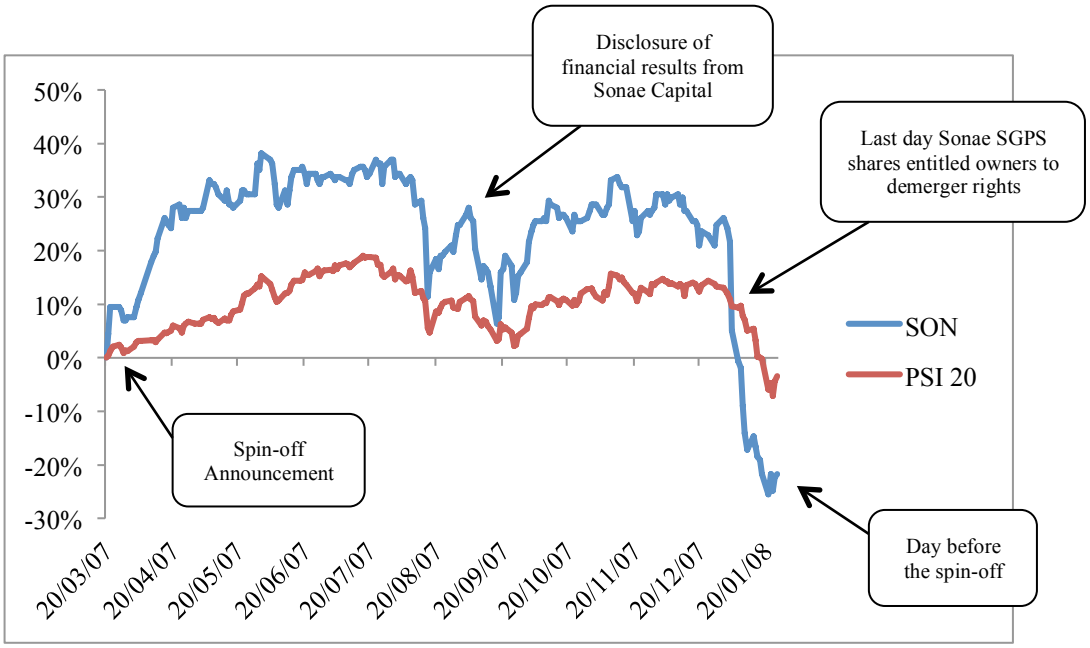
Source: Casewriter.

Table 2 - Reactions to the spin-off announcement

Quote	Source
"(...) it will contribute to give visibility to the only company of Sonae which is still difficult to value"	BPI
"The spin-off (...) will reduce the holding discount and increase the value of Sonae Capital, especially due to the development of the Tróia Resort (...) which, we believe, contains a significant hidden value" "We hope Sonae Capital becomes more transparent with the demerger, currently it is valued by its book value"	UBS
"The hottest announcement of the disclosure of Sonae SGPS results was the spin-off of Sonae Capital (...) the less visible asset of the group. In our opinion this should have a hidden value"	Caixa BI
"The intention to spin-off Sonae Capital has developed interest among institutional investors and was well received by analysts, as it may reveal some hidden value of the company"	Reuters

Source: Adapted from opinions expressed in news articles in the days after the announcement of the spin-off

Graph 2 - Sonae SGPS Price performance after the spin-off announcement



Source: Casewriter. Data from Bloomberg

Table 3 - Main Troiaresort property developments

Development	Approx. Area (m^2)	#	Location
Beach Apartments	28 000	211	UNOP 1
Central Building	13 000	71	UNOP 1
Marina Apartments	6 750	78	UNOP 1
Caldeira Apartments	47 000	275	UNOP 1
Total apartment area	**94 750**		
Beach and Golf residential villas	33 000	96	UNOP 2
Troia Village residential villas	14 000	90	UNOP 2
Eco-Resort villas	21 700	120	UNOP 4
Total area of villas	**68 700**		

Source: Company data

Table 4 - Troiaresort Promotion as of 28 November 2007

Development	#	Average Area	Average Sale Price (€/m^2)
Beach Apartments	**211**	**132.7**	**4014**
Promissory Purchase Agreements	83	125.6	3983
Apartments for sale	128	137.3	4033
Marina Apartments	**78**	**84.6**	**4086**
Promissory Purchase Agreements	47	84	3833
Apartments for sale	31	85.4	4464
Golf and Beach Villa Plots	**96**	**343.8**	**3047**
Promissory Purchase Agreements	12	343.8	3467
Plots for sale	84	343.8	2987

	Comment
Central Building Apartments	Construction will finish in 2008; not yet up for sale.
Caldeira Apartments	Construction not yet started.
Tróia Village residential villas	Construction started in 4Q07
Eco-Resort Villas	Not yet approved

Source: Company data

Table 5 - Other Tróia Developments

	Location	Description
3 Aparthotels	UNOP 1-2	Tróia Mar, Tróia Rio and Tróia Sado; 1100 beds in total
Atlantic Ferries	UNOP 1	Valued at 16.97M€
Marina	UNOP 1	Valued at 4.71M€
Golf	UNOP 3	18 hole golf course, reopening March 2008
Hotel Resort	UNOP 3	Scheduled to build a 5-star hotel
Tróia B3	UNOP 5	20% share of Sonae Capital
Soltróia	UNOP 7-9	Fully owned by Sonae Capital

Source: Company data

Table 6 - Range of Valuations by Research Analysts

M€	**Min**	**Max**	**Avg**
Golf	2.50	8	4.38
Hotel Resort	13	60	31.33
Tróia B3	2	13.5	7.47
Soltróia	63	95.1	73.23

Source: Adapted from equity research reports from Santander, BPI, UBS, Caixa BI, Millenium Investment Banking and Banif Investment Bank issued between January and March 2008

Table 7 - Hotel data

Unit	**Beds**	**Rooms**	**Turnover**	**Days**	**Implied RevPAR[1]**
Porto Palácio		251	8.8[2]	273	128.42
Aqualuz Lagos	467	163	0.9[3]	92	60.02

Source: Company data

Table 8 - European Hotel Market Multiples

	EV/sales	
M€	**2006**	**2007**
Accor S.A.	2.13	1.70
Casino De Cannes	2.56	3.55
Hotel Regina Par	4.76	5.63
Intercontinental	5.46	2.76
Jolly Hotels	3.17	2.86
Millennium & Cop	3.89	1.97
Hotel Majestic	3.24	3.95
NH Hoteles S.A.	2.68	2.08
Geke S.A.	3.18	3.78
Sol Melia S.A.	3.24	1.92
Average	**3.43**	**3.02**
Median	**3.21**	**2.81**

Source: Casewriter. Data from Damodaran Online, http://pages.stern.nyu.edu/~adamodar/ (Accessed October 2, 2014)

Table 9 - Solinca Health & Fitness Clubs

Units	10
Members	29 000
EV/EBITDA range of values	7.5x - 9x

	June 2007	**Sep 2007**
Turnover (M€)	8.5	12.5
EBITDA (M€)	2	3
EBITDA margin	24%	24%

Source: Company data; Adapted from equity research reports from Santander, BPI, UBS, Caixa BI, Millenium Investment Banking and Banif Investment Bank issued between January and March 2008

[1] Revenue per available room - RevPAR = ADR (Average daily room rate) * occupancy rate
[2] Turnover for the first 9 months of 2007
[3] Turnover for the third quarter 2007

Table 10 - Cushman & Wakefield Valuation Report

	Value (M€)	Area (m^2)
Land	**5.89**	**7 308 975**
Projects	**179.83**	**592 600**
Under development	117.17	366 812
For sale	62.66	225 788
Rented and for sale assets	**10.82**	
Residential	0.46	
Retail	3.05	
Offices	4.04	
Parking	1.34	
Other	1.93	
Total Market Value	**196.53**	
Opinion of Worth	**15.19**	
Total	**211.72**	

Source: Property Valuation of the Resorts and Residential Development and Asset Management (excluding Tróia) businesses of Sonae Capital - Cushman & Wakefield, 30th September 2007

Table 11 - Imosede Real Estate Investment Fund

Sonae Capital's stake	57.84%
Total Value	€ 92 390 490
Net Asset Value	€ 87 766 365
Ner of Participation Units	149 221
Value of Participation Unit	€ 588.16

Source: Company data; Report and Accounts 2007 Imosede Real Estate Investment Fund

Table 12 - TP projects

	Stake	MW	EV/MW range of values
Wind Power			
Serra Capucha	50%	10	0.8x - 1.75x
Serra Sicó	52%	20	0.8x - 1.75x
ENEOP[4]	20%	1200	0.2x - 0.45x
Cogeneration	100%	70	0.6x - 1.8x

Source: Company data; Adapted from equity research reports from Santander, BPI, UBS, Caixa BI, Millenium Investment Banking and Banif Investment Bank issued between January and March 2008

Table 13 - Box Lines

M€	**Sep 2007**
EBITDA	1.1
Turnover	34.7
EBITDA margin	3.17%

Source: Company data

[4] Future project. EV/MW range of values already include the necessary investment

Table 14 - Maritime Transport Market Multiples

	EV/EBITDA	
	2006	**2007**
A P Moller - Ma	6.00	5.65
Borgestad Asa	9.67	11.17
Clarkson Plc	5.01	7.30
Cmb Cie Maritime	6.23	10.39
Dfds A/S	11.29	9.05
Euronav SA	6.40	5.38
Exmar NV	11.22	9.58
Farstad Shipping	10.23	9.57
Geodis	7.96	4.94
Havila Shipping	8.91	4.71
Navigazione Mont	5.87	5.41
Premuda Spa	5.01	7.40
Rederi Ab Transa	6.00	4.93
Saga	4.82	9.10
Sloman Neptun	9.55	8.09
Smit Intl NV	11.15	10.05
Touax	10.12	9.58
Wilson Asa	5.04	6.40
Average	**7.80**	**7.71**
Median	**7.18**	**7.75**

Source: Casewriter. Data from Damodaran Online, http://pages.stern.nyu.edu/~adamodar/ (Accessed October 2, 2014)

Table 15 - Book Values of shareholdings

M€	**BV of the shareholding**
Choice Car	2.11
Change Partners	2.07

Source: Company data

Table 16 - Range of valuations for the shareholding in Norscut

M€	
Min Valuation	18
Max Valuation	58.8
Average Valuation	40.76

Source: Adapted from equity research reports from Santander, BPI, UBS, Caixa BI, Millenium Investment Banking and Banif Investment Bank issued between January and March 2008

Table 17 - Sonae Indústria

Shareholding	6.801%
Total n^{er} of shares	140 000 000

	1 week	**1 month**	**3 months**	**6 months**	**1 year**
Average share price	4.47€	5.40€	6.91€	8.00€	8.81€

Source: Casewritter. SONI.LS data from Yahoo Finance, http://finance.yahoo.com/ (accessed October 2, 2014)

Appendix II

Table 18 - Tróia's Real Estate Valuation

Tróia Real Estate	#	Avg Area (sqm)	Avg sale price (€/sqm)	Maturity discount	Valuation (M€)
Beach Apartments	211	133	4014	10%	101.38
Central Building	71	183	4000	15%	44.18
Marina Apartments	78	87	4086	10%	24.95
Caldeira Apartments	275	171	4000	25%	141.08
Beach and Golf residential villas	96	344	3047	10%	90.56
Troia Village residential villas	90	156	3000	25%	31.59
Eco-Resort villas	120	181	3000	30%	45.61
Total					**479.35**

Table 19 - Hotel Valuation

Unit	Beds	Rooms	Days	RevPAR	Turnover (M€)	EV/Sales	Maturity Discount	EV (M€)
Tróia	1100	380	365	70	9.71	3x	20%	**23.30**
Porto Palácio		251	365	100	9.16	3x	15%	**23.36**
Aqualuz	467	163	365	60	3.57	3x	15%	**9.10**

Table 20 - Total Valuation of Tróia

M€	
Real Estate	479.35
Aparthotels	23.30
Marina	4.71
Ferries	16.97
Golf	2.5
Investment	-400
UNOP 1-4	**126.83**
UNOP 3	13
UNOP 5	2
UNOP 7-8	63
Total	**204.83**

Table 21 - Solinca Health and Fitness Clubs Valuation

Turnover (M€)	12.5
EBITDA margin	24%
EBITDA (M€)	3
EV/EBITDA	8x
EV (M€)	**24**

Table 22 - Box Lines Valuation

M€	**Sep 07**	**Dec 07^{P}**
EBITDA	1.1	1.47
Turnover	34.7	46.27
EBITDA margin	3.17%	
EV/EBITDA		7.5x
Implied EV		**11.00**

Table 23 - TP Valuation

	Stake	**MW**	**EV/MW**	**Discount**	**EV (M€)**
Wind Power					
Serra Capucha	50%	10	1.275		6.38
Serra Sicó	52%	20	1.275		13.26
ENEOP	20%	1200	0.325	20%	62.4
Cogeneration	100%	70	1.2		84
Total					**166.04**
SC's stake	50%				**83.02**

Table 24 - Shareholding in Sonae Indústria

Shareholding	6.801%
Total n^{er} of shares	140 Mn
1-week average price	4.47€
Total value (M€)	625.8
SC's share (M€)	**42.6**

Table 25 - Total Valuation

M€

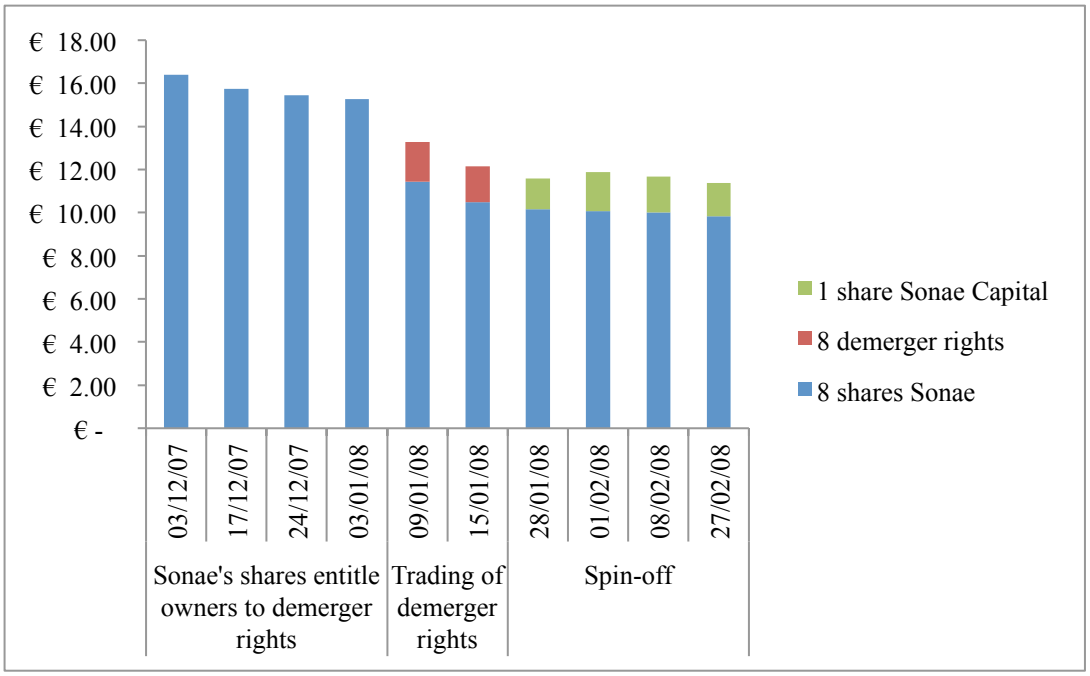
Tróia	204.83
Other Touristic Operations	56.46
Other Real Estate	199.57
Norscut	18
Imosede	50.76
Selfrio	44
TP	83.02
Box Lines	11
Sonae Indústria	42.56
Others	4.17
Total EV	**714.38**
Net Debt	- 267
Contacto gain	47
Equity Value	**494.38**
Holding Discount	20%
Number of shares	250 Mn
Price per share	**1.58€**

Table 26 - Price Targets from Investment Banks' Research Reports

	Price Target	Date
Santander European Equity Research	€ 3.00	28/01/08
BPI Equity Research	€ 2.50	01/02/08
UBS Investment Research	€ 2.20	08/02/08
Caixa BI	€ 2.50	18/02/08
Millenium Investment Banking	€ 2.35	04/03/08
Banif Investment Bank	€ 1.95	27/03/08

Source: Adapted from equity research reports from Santander, BPI, UBS, Caixa BI, Millenium Investment Banking and Banif Investment Bank issued between January and March 2008

Graph 3 - Portfolio value comparison



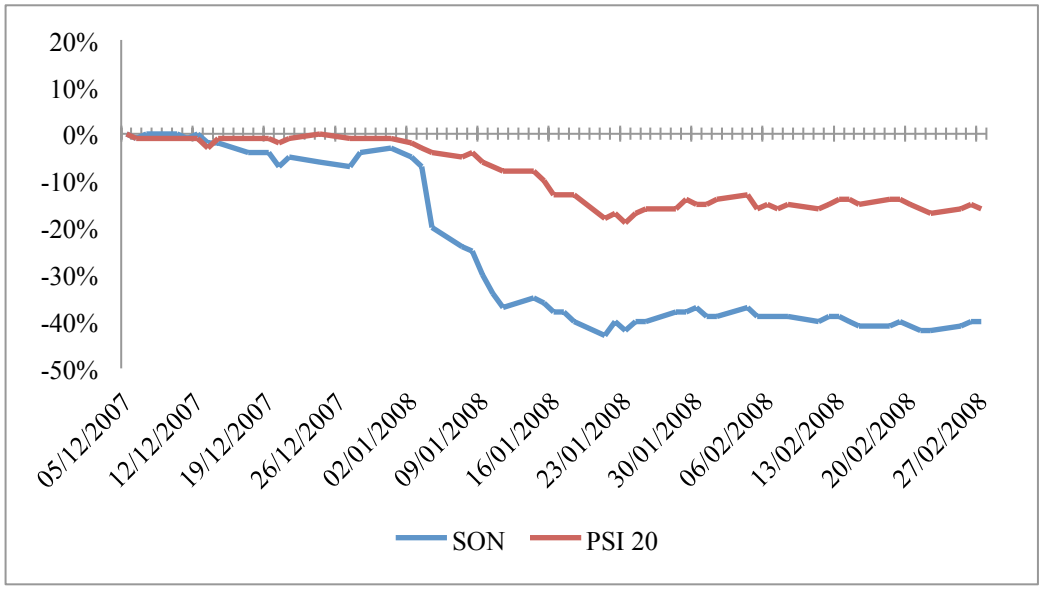
Source: Casewriter. Data from Bloomberg

Table 27 - Portfolio value comparison

	Date	Total Value of the Portfolio
	03/12/07	€ 16.40
	17/12/07	€ 15.76
	24/12/07	€ 15.44
Detachment of demerger rights from Sonae SGPS shares	03/01/08	€ 15.28
Demerger rights start trading	09/01/08	€ 13.28
Demerger rights end trading	15/01/08	€ 12.16
Spin-off	28/01/08	€ 11.60
	01/02/08	€ 11.89
	08/02/08	€ 11.69
	27/02/08	€ 11.39

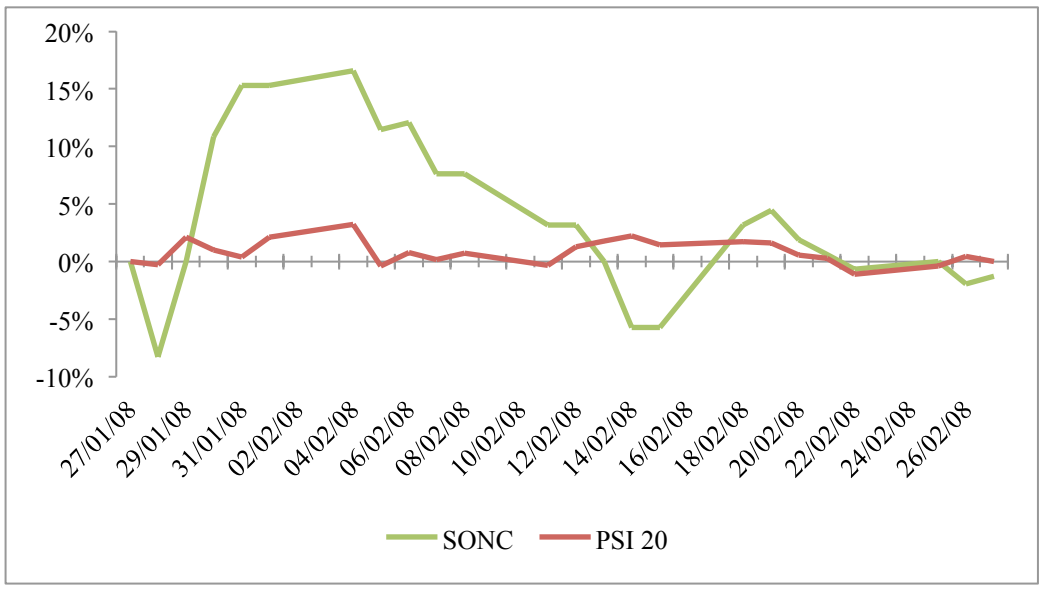
Source: Casewriter. Data from Bloomberg

Graph 4 - Share price performance: Sonae SGPS and PSI-20



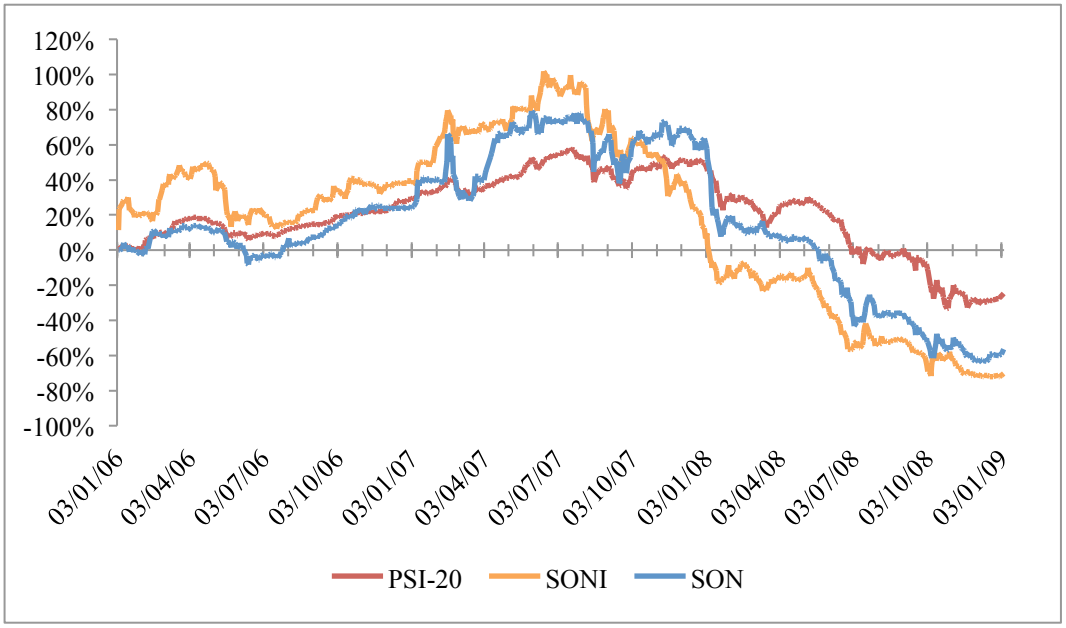
Source: Casewriter. Data from Bloomberg

Graph 5 - Share price performance: Sonae Capital and PSI-20



Source: Casewriter. Data from Bloomberg

Graph 6 - Share price performance after the spin-off of Sonae Indústria



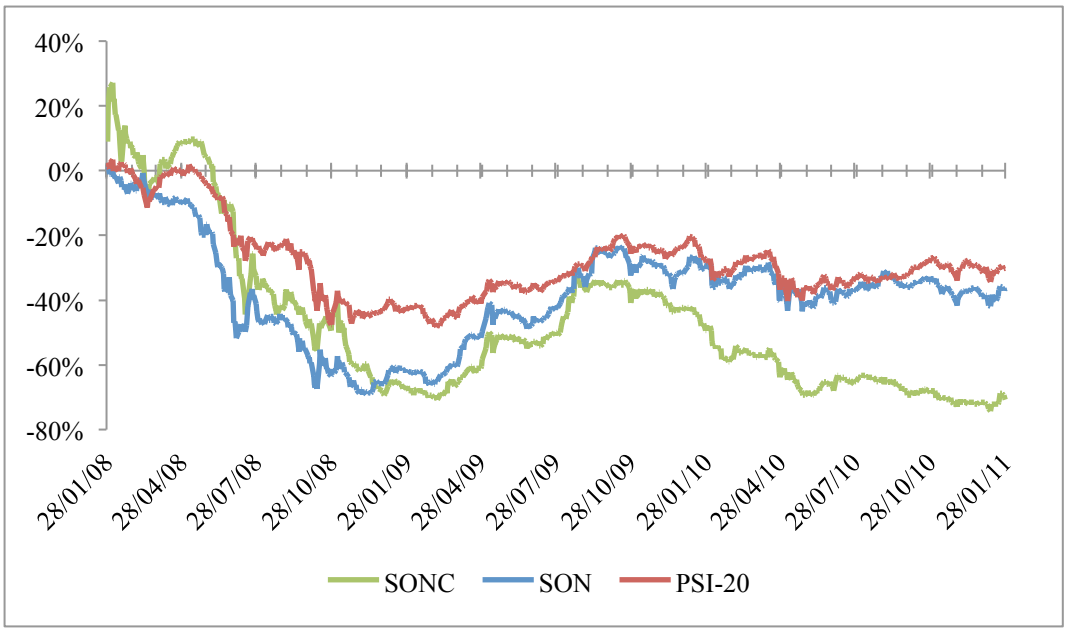
Source: Casewriter. Data from Bloomberg

Table 28 - Share price performance after the spin-off of Sonae Capital

	1y	2y	3y
SONC	-68%	-49%	-71%
SON	-62%	-30%	-37%
PSI-20	-42%	-28%	-30%

Source: Casewriter. Data from Bloomberg

Graph 7 - Share price performance after the spin-off of Sonae Capital



Source: Casewriter. Data from Bloomberg