



Spinoffs

January 2012



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Not All Spinoffs Are Created Equally

In January of 2012, our research team examined the recent increase in corporate spinoffs, and the outlook for future activity. Our conclusion (not surprisingly) was that corporate spinoffs have typically had a beneficial impact on shareholder value for both the parent company and the spun-off entity. However we found that not all spinoffs are created equally.

Many different transaction structures can be labeled under the 'spinoff' umbrella. Variables include the percentage of equity spun out, whether the spinoff was preceded by a partial IPO ('carve out') of the former subsidiary, and of course the underlying motives of management for implementing a spinoff. In our view, the most attractive investment opportunities are typically found in 'pure spinoffs' in which all equity in a company's formerly wholly-owned subsidiary is spun off to shareholders. These scenarios are most likely to capture more of the benefits from separation (new management independence, capital structure changes, attracting a new investor class, etc.) that may drive spinoff outperformance.

In fact, a study our firm performed in 2007 indicated pure spinoffs averaged 12.3% excess returns (versus relevant indexes) over the first full year following the spinoff versus underperformance of 2.6% for post-IPO spinoffs. In addition, it should be noted that spinoffs have historically experienced both a high acquisition and bankruptcy rate. While the elevated acquisition rate is unsurprising, we suspect the high frequency of bankruptcy reflects parent companies' frequent decision to load a spinoff with elevated debt levels and/or liabilities. Nor would we dismiss the idea that parent company management teams' desire to distance themselves from unattractive or potentially overvalued businesses in certain circumstances.

These facts underscore the necessity to closely examine a spinoff's underlying business health and details of the transaction agreement.

To receive a copy of our January 2012 report focusing on spinoffs please email:
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