Do Spin-Offs Create or Destroy Value?

We examine the performance of firms involved in spin-offs over the past 17 years. We find that spin-offs lead to price appreciation for parent companies and their spun-off children. We note that investment timing is important in the short term and that the volatility of returns is significant.

- **Spin-Off Announcement Performance**: Parent companies’ performance dipped in the days preceding a spin-off announcement. Parent returns exceeded the benchmark on announcement date and then remained above the S&P 500’s returns through day 30. (See Exhibit 3.) Parent company share prices increased the most on spin-off announcement date.

- **Spin-Off Date—A Bumpy Month, then Outperformance**: Spin-offs underperformed the S&P 500 for the first 27 trading days after the effective date. Performance then rose above the index and continued upward. Parent firms performed well for the first three days, then declined before recovering.

- **Volatile Strategy**: While performance was positive, the standard deviation of returns following the first 30 trading days after effective date was high: 11.7% for parents and 16.1% for spin-offs.

- **Upcoming Spin-Offs**: We provide a listing of upcoming and recent spin-offs along with their one-month performance relative to S&P 500.

Exhibit 1: Short-Term Performance—Effective Date

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Parent</th>
<th>Spin-off</th>
</tr>
</thead>
<tbody>
<tr>
<td>T-30</td>
<td>-4.0%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>T-28</td>
<td>-2.9%</td>
<td>-2.8%</td>
</tr>
<tr>
<td>T-22</td>
<td>-1.9%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>T-18</td>
<td>-1.0%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>T-14</td>
<td>0.0%</td>
<td>0.1%</td>
</tr>
<tr>
<td>T-10</td>
<td>1.1%</td>
<td>1.2%</td>
</tr>
<tr>
<td>T-6</td>
<td>2.2%</td>
<td>2.3%</td>
</tr>
<tr>
<td>T-2</td>
<td>3.3%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Quantitative Equity Research.
Performance Measurement

We examined spin-off performance over the past 17 and ½ years (1995 to present). We focused on firms in the top 1,000 U.S. companies by market cap.

For each spin-off, there are two key dates: “announcement date” and the date the spin-off first trades, the “effective date.” We measured the performance of parent firms before and after the announcement and effective dates. We measured the performance of spun-off firms from the effective date forward.

Exhibit 2: Measuring Performance—Around Announcement and Effective Date

<table>
<thead>
<tr>
<th>Time</th>
<th>Parent</th>
<th>Parent</th>
<th>Parent</th>
<th>Spin-Off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Announcement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Credit Suisse Quantitative Equity Research.

To measure parent-firm performance, we created an equal-weighted portfolio composed of all the parent firms. We then measured their performance over various periods from before the announcement date until one year after the effective date. We created a similar portfolio to measure spin-off performance.

30-Day Performance

Parent Company Announcement Date

Beginning 30 trading days before spin-off announcement and continuing until 30 days afterward, Exhibit 3 plots parent firm performance around spin-off announcement date.

Parent firms dipped just before the announcement of a spin-off. Share prices subsequently jumped on spin-off announcement date. The daily return was greatest on announcement date. After the announcement, performance declined initially, but remained ahead of the S&P 500. Short-term performance peaked around day T+24.

Exhibit 3: Parent Company Relative Performance—Announcement Date
from January 1995 through July 2012, relative to the S&P 500

Source: Credit Suisse Quantitative Equity Research.
Parent Company Effective Date

We tested the relative performance of the parent portfolio around effective date. Our test window was 30 days before and after spin-off effective date. The parent portfolio rose about 1% in the 30 days prior to the spin-off date, further gaining in the dates immediately before and after the effective date. After peaking three days after the effective date, stock prices started declining. Parent company positive performance, in this observation window, was concentrated before and just after effective date.

Exhibit 4: Parent Company Relative Performance–Effective Date
from January 1995 through July 2012, relative to the S&P 500

Spin-Off Effective Date

The spin-off portfolio had a somewhat similar post-effective-date performance. The spin-off portfolio began declining immediately following the effective date, bottoming out on day 5. The spin-off portfolio recovered to breakeven by day 28.

Exhibit 5: Spin-off Relative Performance–Effective Date
from January 1995 through July 2012, relative to the S&P 500

Source: Credit Suisse Quantitative Equity Research.
60-Day Performance from Effective Date

Immediately following the effective date, spin-offs declined relative to the S&P 500. Parent companies followed just a few days later. During recovery, spin-offs headed upward more steeply than parent companies. Spin-offs exceeded the index return on day 28. Parent company performance was more gradual, but it too surpassed the benchmark by day 27. At day 60, both portfolios had produced excess performance of 2.2% versus the S&P 500.

Exhibit 6: Parent & Spin-Off 60-Day Relative Performance
first 60 trading days after effective date of spin-off, relative to the S&P 500

<table>
<thead>
<tr>
<th></th>
<th>Parent</th>
<th>Spin-off</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-3.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-2.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-1.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.0%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Credit Suisse Quantitative Equity Research.

Why Does Spin-Off Value Dip?

In the spin-offs we examined, the average spin-off underperformed for the first five trading days after the effective date. There are a number of reasons why the prices of spun-off firms may initially trade at lower prices, making them of special interest to investors.

1) **Index Selling:** If the parent firm was a member of an index, such as the S&P 500, the spun-off entity likely is not. Index funds and institutional investors will sell the spun-off shares when they do not meet their fund mandates.

2) **Ownership Criteria:** The new owners of the firm (investors who received the spun-off shares), now own a firm that they never purchased. The spin-off firm may not meet their investment criteria. The parent may be a large-cap firm, while the spin-off a small- or mid-cap firm. The investor may decide to sell the new spin-off shares.

3) **Limited History:** Available financial information may not be complete. Investors may wait to see how the spin-off fares on its own before investing.

4) **Low Analyst Coverage:** Coverage from Wall Street analysts is significantly less for the spin-off versus the parent firm.
12-Month Performance

Over a 12-month observation period, parent and spun-off firms outperformed the index by 9.6% and 13.4%. These positive results were reached with a large variability among the individual 12-month returns for the different parent and spin-off firms.

Exhibit 7: Parent and Spin-Off 12-Month Relative Performance

first 12 months after effective date of spin-off, relative to the S&P 500

The standard deviation of returns at the end of 12 months was 42% for parent companies and 82% for spun-off firms.

Source: Credit Suisse Quantitative Equity Research.
12-Month Performance, Three-Year Increments

We segmented the 17 years from 1995 through 2011 into three-year groups and measured the 12-month-performance of the spin-offs in each group. Volatility was considerably lower over certain periods. However, spin-off positive performance was not always present and was certainly more concentrated in the three-year periods during and after the tech boom.

Exhibit 8: Parent and Spin-Off 12-Month Relative Performance Every Three Years
first 12 months after effective date of spin-off, relative to the S&P 500

Source: Credit Suisse Quantitative Equity Research.
## Recent and Upcoming Spin-Offs

**Exhibit 9: Recent U.S. Spin-offs**

<table>
<thead>
<tr>
<th>Parent Company (Ticker)</th>
<th>Spin-Off (Ticker)</th>
<th>Sector</th>
<th>Effective Date</th>
<th>Parent (30-Day Return)</th>
<th>Spin-Off (30-Day Return)</th>
<th>S&amp;P 500 (30-Day Return)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beam Inc (BEAM)</td>
<td>Fortune Brand Home &amp; Sec (FBHS)</td>
<td>Cons Disc</td>
<td>10/4/2011</td>
<td>14.31%</td>
<td>25.93%</td>
<td>12.22%</td>
</tr>
<tr>
<td>ITT Corp (ITT)</td>
<td>Xylem Inc (XYL)</td>
<td>Industrials</td>
<td>11/1/2011</td>
<td>0.62%</td>
<td>-13.92%</td>
<td>-0.17%</td>
</tr>
<tr>
<td>ITT Corp (ITT)</td>
<td>Exelis Inc (XLS)</td>
<td>Industrials</td>
<td>11/1/2011</td>
<td>0.62%</td>
<td>-26.61%</td>
<td>-0.17%</td>
</tr>
<tr>
<td>Marriott International Inc (MAR)</td>
<td>Marriott Vacations WW Corp (VAC)</td>
<td>Cons Disc</td>
<td>11/22/2011</td>
<td>10.33%</td>
<td>-2.71%</td>
<td>7.89%</td>
</tr>
<tr>
<td>Expedia Inc (EXPE)</td>
<td>TripAdvisor Inc (TRIP)</td>
<td>Cons Disc</td>
<td>12/21/2011</td>
<td>20.37%</td>
<td>27.03%</td>
<td>8.33%</td>
</tr>
<tr>
<td>Williams Cos Inc (WMB)</td>
<td>WPX Energy Inc (WPX)</td>
<td>Energy</td>
<td>1/3/2012</td>
<td>8.02%</td>
<td>-0.55%</td>
<td>5.47%</td>
</tr>
<tr>
<td>General Growth Properties Inc (GGP)</td>
<td>Rouse Properties Inc (RSE)</td>
<td>Financials</td>
<td>1/13/2012</td>
<td>12.00%</td>
<td>35.89%</td>
<td>6.75%</td>
</tr>
<tr>
<td>Sunoco Inc (SUN)</td>
<td>SunCoke Energy Inc (SXC)</td>
<td>Energy</td>
<td>1/18/2012</td>
<td>6.64%</td>
<td>14.23%</td>
<td>5.35%</td>
</tr>
<tr>
<td>Ralcorp Holdings Inc (RAH)</td>
<td>Post Holdings Inc (POST)</td>
<td>Cons Staples</td>
<td>2/6/2012</td>
<td>-4.42%</td>
<td>10.75%</td>
<td>4.89%</td>
</tr>
<tr>
<td>ConocoPhillips (COP)</td>
<td>Phillips 66 (PSX)</td>
<td>Energy</td>
<td>5/1/2012</td>
<td>-3.03%</td>
<td>0.03%</td>
<td>-6.13%</td>
</tr>
<tr>
<td>MeadWestvaco Corp (MWV)</td>
<td>ACCO Brands Corp (ACCO)</td>
<td>Materials</td>
<td>5/1/2012</td>
<td>-3.88%</td>
<td>-12.82%</td>
<td>-6.13%</td>
</tr>
<tr>
<td>Matson Inc (MATX)</td>
<td>Alexander &amp; Baldwin Inc (ALEX)</td>
<td>Industrials</td>
<td>7/2/2012</td>
<td>-6.37%</td>
<td>21.23%</td>
<td>3.10%</td>
</tr>
<tr>
<td>L-3 Comm. Holdings Inc (LLL)</td>
<td>Engility Holdings Inc (EGL)</td>
<td>Industrials</td>
<td>7/18/2012</td>
<td>-0.65%</td>
<td>3.22%</td>
<td>3.04%</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Quantitative Equity Research.

**Exhibit 10: Upcoming U.S. Spin-Offs**

<table>
<thead>
<tr>
<th>Parent Company</th>
<th>Parent Ticker</th>
<th>Spin-Off</th>
<th>Spin-Off Ticker</th>
<th>Announced Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tyco International Ltd</td>
<td>TYC US Equity</td>
<td>Pentair Inc</td>
<td>PNR US Equity</td>
<td>9/19/2011</td>
</tr>
<tr>
<td>Tyco International Ltd</td>
<td>TYC US Equity</td>
<td>ADT North Am residential sec.</td>
<td>0199809US Equity</td>
<td>9/19/2011</td>
</tr>
<tr>
<td>Abbott Laboratories</td>
<td>ABT US Equity</td>
<td>AbbVie Inc</td>
<td>03398452US Equity</td>
<td>10/19/2011</td>
</tr>
<tr>
<td>Entergy Corp</td>
<td>ETR US Equity</td>
<td>ITC Holdings Corp</td>
<td>ITC US Equity</td>
<td>12/5/2011</td>
</tr>
<tr>
<td>Covidien PLC</td>
<td>COV US Equity</td>
<td>Mallinckrodt LLC</td>
<td>0110664DUS Equity</td>
<td>12/15/2011</td>
</tr>
<tr>
<td>Sears Holdings Corp</td>
<td>SHLD US Equity</td>
<td>Sears Canada Inc</td>
<td>SCC CN Equity</td>
<td>5/17/2012</td>
</tr>
<tr>
<td>News Corp</td>
<td>NWSA US Equity</td>
<td>Media and Entertainment business</td>
<td>0557875DUS Equity</td>
<td>6/28/2012</td>
</tr>
<tr>
<td>PPG Industries Inc</td>
<td>PPG US Equity</td>
<td>Georgia Gulf Corp</td>
<td>GGC US Equity</td>
<td>7/19/2012</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Quantitative Equity Research.

The author of this report wishes to acknowledge the contribution made by Tarun Agarwal, an employee of CRISIL Global Research and Analytics, a business division of CRISIL Limited, a third-party provider of offshore research services to Credit Suisse.
Spin-Off Statistics

We restricted our investigation of spin-offs to parent firms in the top 1,000 companies by market cap from 1995 to the present. We focused on the top 1,000 firms to avoid the data issues present with smaller companies spinning off. With smaller firms, there was frequently inconsistent pricing and spin-off data. We also omitted several large spin-offs due to incomplete information and/or inconsistent trading after the spin-off date.

Exhibit 11: Spin-Offs by Year Among the Top 1,000 U.S. Firms by Market Cap from January 1995 through July 2012

Industrials and Consumer Discretionary led, with the highest number of spin-offs.

Exhibit 12: Spin-Off Counts by Sector from January 1995 through July 2012

Source: Credit Suisse Quantitative Equity Research.
Appendix: Spin-Off Primer

Companies engaging in spin-offs typically hope to maximize shareholder value by ‘unlocking the value’ of subsidiaries that are part of the parent firm. Expectations of increased operational and financial efficiency are usual.

A spin-off is a form of corporate restructuring through which a portion of the parent company is divested. Three common types of corporate restructurings are as follows.

**Pure Spin-off:** Shares of a subsidiary are distributed among the parent shareholders on a pro-rata basis.

**Equity Carve-outs:** Shares of the spun-off entity are distributed to the market through an initial public offering (IPO).

**Split-Offs:** Shares of the spun-off entity are exchanged with appropriate number of shares of parent entity.

Exhibit 13: *Types of Corporate Restructuring*

*Source: Credit Suisse Quantitative Equity Research.*
Companies Mentioned  (Price as of 04 Sep 12)
Abbott Laboratories (ABT, $65.75, NEUTRAL, TP $60.00)
ACCO Brands Corp. (ACCO, $6.37, OUTPERFORM [V], TP $14.00)
Alexander & Baldwin, Inc. (ALEX, $29.72)
Beam (BEAM, $59.34)
ConocoPhillips (COP, $54.87, NEUTRAL, TP $60.00)
Covidien (COV, $56.12)
Engility Holdings Inc (EGL)
Entergy Corp. (ETR, $68.31, NEUTRAL, TP $71.00)
Exelis (XLS, $10.14)
Expedia, Inc. (EXPE, $52.10, NEUTRAL, TP $56.00)
Fortune Brands Home & Security, Inc. (FBHS, $25.30, NEUTRAL, TP $23.00)
General Growth Properties (GGP, $20.98)
Georgia Gulf Corp. (GGC, $39.47)
ITC Holdings Corp. (ITC, $72.24, NEUTRAL, TP $80.00)
ITT Corporation, Inc. (ITT, $19.55)
Kraft Foods Group Inc (KRFT)
Kraft Foods, Inc. (KFT, $41.67, OUTPERFORM, TP $45.00)
L-3 Communications (LLL, $69.38, NEUTRAL, TP $75.00)
Marriott International (MAR, $37.40, OUTPERFORM, TP $43.00)
Matson Inc (MATX)
McGraw-Hill Companies (MH, $51.79)
MeadWestvaco (MWV, $28.80)
MeadWestvaco Corp (VAC)
News Corp. (NWSA, $23.75, NEUTRAL, TP $23.00)
Pentair, Inc. (PNR, $42.89, NEUTRAL, TP $50.00)
Phillips 66 (PSX, $41.74, OUTPERFORM, TP $46.00)
Post Holdings Inc (POST)
PPG Industries, Inc. (PPG, $108.77, OUTPERFORM, TP $133.00)
Ralcorp, Inc. (RAH, $71.91, OUTPERFORM, TP $75.00)
Rouse Properties (RSE, $14.15)
Sears Canada Inc (SCC)
Sears Holding Corp. (SHLD, $52.11, UNDERPERFORM [V], TP $20.00)
SunCoke Energy, Inc. (SXC, $16.40, OUTPERFORM, TP $19.00)
Sunoco, Inc. (SUN, $47.72, RESTRICTED)
TripAdvisor, Inc. (TRIP, $35.40)
Tyco International, Ltd. (TYC, $55.54, OUTPERFORM, TP $60.00)
Williams Companies (WMB, $32.13)
WPX Energy, Inc. (WPX, $15.81)
Xylem, Inc. (XYL, $24.07)

Disclosure Appendix

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*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry

Quantitative Research
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*An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.

**The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.

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<table>
<thead>
<tr>
<th>Stock Rating</th>
<th>Global Ratings Distribution</th>
<th>Bank Ratings Distribution</th>
</tr>
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<tbody>
<tr>
<td>Outperform/Buy*</td>
<td>45% (52% banking clients)</td>
<td></td>
</tr>
<tr>
<td>Neutral/Hold*</td>
<td>42% (49% banking clients)</td>
<td></td>
</tr>
<tr>
<td>Underperform/Sell*</td>
<td>11% (39% banking clients)</td>
<td></td>
</tr>
<tr>
<td>Restricted</td>
<td>2%</td>
<td></td>
</tr>
</tbody>
</table>

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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