STOCK SPINOFFS

“You can make a pile of money investing in spinoffs. The facts are overwhelming. Stocks of spin-off companies significantly and consistently outperform the market averages.”
- Joel Greenblatt
  o Founder of Gotham Capital
  o Generated 50% annual returns for over a decade

“Spinoffs often present attractive opportunities for value investors”
- Seth Klarman
  o Founder of Baupost Capital
  o Value investing legend

“Carefully study spinoffs.”
- Charlie Munger
  o Vice-Chairman of Berkshire Hathaway
  o Warren Buffett’s right hand man

HOW TO PICK THE WINNERS

www.StockSpinoffInvesting.com
Stock Spinoff Performance

As displayed in the chart below, study after study has confirmed that spinoffs outperform the market.

<table>
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<tr>
<th>Study #</th>
<th>Study Name</th>
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<th>Timeframe</th>
<th>Key Takeaway</th>
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<td>1</td>
<td>Restructuring through spinoffs: The stock market evidence</td>
<td>Patrick J. Cusatis, James A. Miles, and J. Randall Woolridge</td>
<td>1965 to 1990</td>
<td>Spinoffs outperformed market by 10% annually for three years</td>
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<td>Corporate Spinoffs Beat The Market</td>
<td>Lehman Brothers</td>
<td>1990 to 2006</td>
<td>Spinoffs outperformed the S&amp;P 500 by 13.3% in the first 12 months of trading</td>
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<td>Do Spinoffs Create or Destroy Value?</td>
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<td>The Stock Price Performance of Spinoff Subsidiaries, Their Parents, and the Spinoff ETF</td>
<td>John McConnell, Steven Sibley, and Wei Xi</td>
<td>2001 to 2013</td>
<td>Spinoffs outperformed the market by 17.1% in the first 22 months of trading</td>
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<td>Global Spinoffs &amp; The Hidden Value of Corporate Change</td>
<td>Edge Group and Deloitte</td>
<td>2000 to 2014</td>
<td>Spinoffs outperformed the MSCI world index by 22% in the first 12 months of trading</td>
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Links to studies:
1. Restructuring through Spinoffs: The Stock Market Evidence
2. Bloomberg Article Summarizing Study
3. Barron’s Article Summarizing Study
4. Credit Suisse: Do Spinoffs Create or Destroy Value?
5. The Stock Market Performance of Spinoff Subsidiaries, Their Parents, and the Spinoff ETF
6. Global Spinoffs & The Hidden Value of Corporate Change

For more evidence of spinoffs outperformance, see the Bloomberg Spinoff Index below.
Want even more evidence? Check out the performance of the Horizon Kinetics Global Spin-off Index:

![Performance Graph]

OK. So we’ve established that spinoffs outperform.

Do all spinoffs outperform?

No.

Many spinoffs underperform and even go bankrupt.

Just look at Lone Pine Resources (2011 spinoff from Forest Oil) and Orchard Supply (2012 spinoff from Sears), which both went bankrupt.

In fact, the Deloitte study above identified that 4 out of 10 investments do not generate a positive return in their first 12 months of trading.

In the Deloitte study, the researchers found that top quartile spinoffs generated a +98% 1 year return while bottom performing spinoffs generated a -39% 1 year return.
In other words, there’s a HUGE disparity in spinoff performance.

So how do we pick the winners?

**Buy Healthcare Spinoffs**
Healthcare has historically been the best performing spinoff sector. The Deloitte study, which analyzed spinoffs from 2000 to 2014, found that healthcare spinoffs generated a 45% return in the first twelve months of trading. A McKinsey study in 1999 also identified the healthcare sector as the top perform sector.

**Buy Small Cap Spinoffs**
Spin-off Investor Research analyzed spinoffs from 2000 to 2015 and found that smaller cap spinoffs tended to generate the most alpha. Similarly, they found that spinoffs with low average daily liquidity tended to outperform.

**Cut Your Losers, Ride Your Winners**
Spin-off Investor Research found in its research that outliers really drive excess spinoff return. It found that the average spinoff return was 29.5% but the median return was only 4.9%. This analysis suggests the optimal spinoff strategy is to cut your losers and let your winners run.

**Buy Spinoffs That Are Carefully Planned**
Deloitte study: A 50% greater return was produced by spinoffs, if the parent took longer than 6 months to plan the transaction.