In association with

GLOBAL SPINOFFS &
THE HIDDEN VALUE OF CORPORATE CHANGE

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EXECUTIVE SUMMARY

ABOUT US

THE EDGE CONSULTING GROUP (THE EDGE)

As the leading independent research firm in the world researching and recommending corporate break-ups on a fully global basis, previously known as The Spinoff Report® (Est. 2005), The Edge provides its clients and investors with the ability to access hidden corporate value from Global Special Situations through their use of a pioneering approach to investments.

The Edge's focuses on three core principles: fundamental valuation discovery, technical issues that will cause forced buying or selling, and thirdly by studying the real value of corporate management changes vs. their history and incentives to deliver value for both existing and new potential shareholders.

- ✓ **Est. 2005, Leading Provider of Global** Corporate Spinoff & Special Situations Research
- ✓ **Team of 12** – Service Clients via Full Access to Analysts / Weekly Action & Review Calls on Top Ideas
- ✓ **Predicted Spinoffs Yet to Happen, M&A and Takeovers** / Analysis of Prime Re-Rating Hidden Future Spinoffs / Value Unlocking
- ✓ **Accountability Built via 7 Year Outperforming Recommendation Track Record*** +129% vs. +33% S&P500 / Beaten Every Major Global Index**. +72% Average Return** from all Edge stock recommendations
- ✓ **Compliance / Regulated:** All our research content is publicly sourced. Regulated by the UK Government Regulator, UK FCA (Financial Conduct Authority).

* As of July 1, 2014.

To discuss The Edge's research or request a meeting to discuss this study, please contact Ryan Mendy, (rm@edgecgroup.com) or call directly on +1 212 714 7046 (New York) or +44 845 459 7103 (London). Alternatively, visit www.edgecgroup.com and click schedule a call.

DELOITTE

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 210,000 professionals are committed to becoming the standard of excellence.

Our M&A expertise:

For those who undertake mergers, acquisitions, Spinoffs or disposals, we have a team of over 3,000 M&A specialists globally drawing upon industry knowledge and expertise through the entire deal lifecycle.

The need to find growth - for new markets, the restructuring in financial services, responses to technology changes, the reduced value of public companies in Europe, the cash held in many corporate balance sheets - we see all of these factors contributing to M&A, both Spinoffs and acquisitions, in 2015 and beyond.

If you would like to discuss any topics raised in this Spinoff Study, please contact George Budden (+44 20 7303 6316, gbudden@deloitte.co.uk) or Dan Beanland (+44 20 7007 1959, dbeanland@deloitte.co.uk).

KILLER FINDINGS

Performance & Preparation

- ✓ Worldwide, since Jan 2000, the asset class of Spinoffs have generated over 10x times the average gains of the MSCI World Index over the first 12 months,
- ✓ 40% of Spinoffs do not generate a return in the first year post separation,
- ✓ Over 40% make more than 20% in the first year after being separated,
- ✓ A 50% greater return is produced by Spinoffs one year after if the Parent company takes longer than 6 months to prepare.

M&A

- ✓ Breaking down each sector, almost 2 out of 10 Spinoffs were either acquired or taken-private within two years on average,
- ✓ Impatient shareholders seeking improved strategies (Activism) is creating a wave of corporate change.

Where Investors Lose Money

On average, our data proved Parent companies lose money for the first 45 days post the separation,

Growth & Outlook

- ✓ After an all-time high in 2007 (x44), parent company break-ups are due to rise steeply in 2015 and 2016,
- ✓ Globally, The Edge's deal calendar of announced Spinoffs for measures the market at US$1 Trillion Dollars,
- ✓ Predicted spinoffs by The Edge uncovers north of 100 companies can break-up, totaling over US$3 Trillion of global companies.

Taxation

Studying the globe, most countries have some way of recognizing spinoffs as tax free, with the notable exception of Japan.

Best Performing Sectors

- ✓ For ex-Parents , the Utility sector was the all-time best performer, generating an average return of 44%,
- ✓ However, for Spinoffs, it was Healthcare. Delivering average returns of 45% over the first year.

Best Timing for Investors

- ✓ We discovered the trigger where each sector generates the greatest value, thus the best entry time.

EXECUTIVE SUMMARY

"The whole is greater than the sum of its parts." — Aristotle

In direct contravention of this timeless quote, we find that the sum of parts is greater than the whole. We find that a Spinoff of a division or subsidiary turns out to be a great strategy for unlocking value.

This study evaluates and analyses the performance of global Spinoffs across all major geographies & sectors, both pre and post Spinoff. This study confirms that, on average, Spinoffs create value for both Parent and the Spinoff entity and leaves the shareholders better off than before by out-performing the market benchmarks. However, not all Spinoffs create value: some do fail to outperform benchmarks, hence it is advisable to research on whether the particular Spinoff has the potential to create value or not, before investing in the same.

Our analysis finds that both Parent and Spinoff tend to sell-off in the days after the stocks separate, possibly due to the investor selection effect (focused on one business or an index investor getting rid of non-index entity created because of Spinoff), presenting a possible investment opportunity for new shareholders.

Earlier studies have suggested several motives for value-creating corporate Spinoffs. We believe that amongst them, the efficiency gain hypothesis and asymmetric information hypothesis are the two most important ones that help explain above-average returns that the Spinoff transactions generate.

"Spinoffs are frequently rewarding, the key fact for investors is to know which companies will beat their benchmark peer groups and indices alike"

Ryan Mendy, COO, The Edge®

Our analysis shows that Spinoff transactions have a value creation effect with Parents adding 14% on average and Spinoffs adding 22% on average a year after the effective date (separation / first listing date). The empirical evidence reveals that both the Parents and Spinoffs outperformed their benchmark MSCI World Index by 13% and 21% respectively, measured over one year. The results also indicate that Spinoffs performed significantly better than Parents, with an average 1-year outperformance of 8%.

When we look at geographic data, we find that Spinoffs did better than Parents across the regions, with highest relative performance coming from Rest of the World as Parent entities there performed poorly with only 3% returns on an average.

Still, not all transactions made money and there were value destroyers as well. The analysis shows that only select transactions across sectors created value for the shareholders through Spinoffs.

In addition, we find that the Spinoff value creation is not dependent on the pace of economic growth.

Average Performance Returns (Over 1 Year)	Parents	Spinoffs	Benchmark*
Global (Includes US, EU & RoW)	14%	22%	1%
US	21%	27%	3%
European	10%	20%	1%
Rest of World (Ex US and European)	3%	18%	-1%

Note: Benchmark for Global and RoW is MSCI World Index, for US S&P500 and for Europe EU STOXX 600. ('Time Weighted')

LOOKING FORWARD / OUTLOOK FOR SPINOFFS

Looking back to 2010, the total market capitalization value of the 32 Parents that broke-up in that year was $131 Billion. When combining the annual market cap value of all 2014 completed and planned corporate Spinoffs captured on The Edge's Spinoff calendar, it totals $664 Billion. A fivefold increase.

However, on a year-on-year measure, the market cap value for 2013 was $645bn. What we witness here is that 26 Parents broke-up globally vs. 45 scheduled for 2014. Given the small growth in percentage terms in the total year-on-year market cap value, the data tells us that a greater number of mid cap deals are being effected this year. In the coming year, a smaller number of larger transactions have already been announced – which should generate an even higher total deal value.

We have analyzed that the market cap value for Parents of 2015's already announced Spinoffs is $775 Billion. However, this overlooks the Parents that are yet to announce Spinoffs, for which we estimate another 5 announcements could be made per quarter. As such, we feel it safe to forecast another 20+ to 'organically' announce and close in 2015. Therefore, keeping the deal count similarly high but potentially doubling the market cap value vs. 2014 and taking the market cap value of Spinoffs in 2015 north of $1 Trillion.

Potential Spinoffs?

For 2015 through 2016, The Edge currently forecasts and have captured over 100 predicted Spinoffs / break-up targets globally from analyzing over 1,000 of the most valuable listed, multi-division companies around the world where additional valuation catalysts exist beyond the current market capitalization.

To define the shortlist of 100, The Edge research uses seven key measures. Two of those areas we analyzed were:

1.) Declining trend in ROIC over the last 3-5 years, and

2.) Where two unrelated segments or a subsidiary exists that could create a notable re-rating in valuations vs its new potential (pure-play) sector peer group for each business (Parent and Spinoff) if separately listed.

The market cap value for these stocks / candidates for a potential break-up are currently over $3 Trillion.

Another driver we observe and factor is that shareholder activism. The Edge expects this emerging institutional investor role to play an increasing significant role going forward, with their key aim being to push underperforming companies / management to restructure (Spinoff) core business segments.

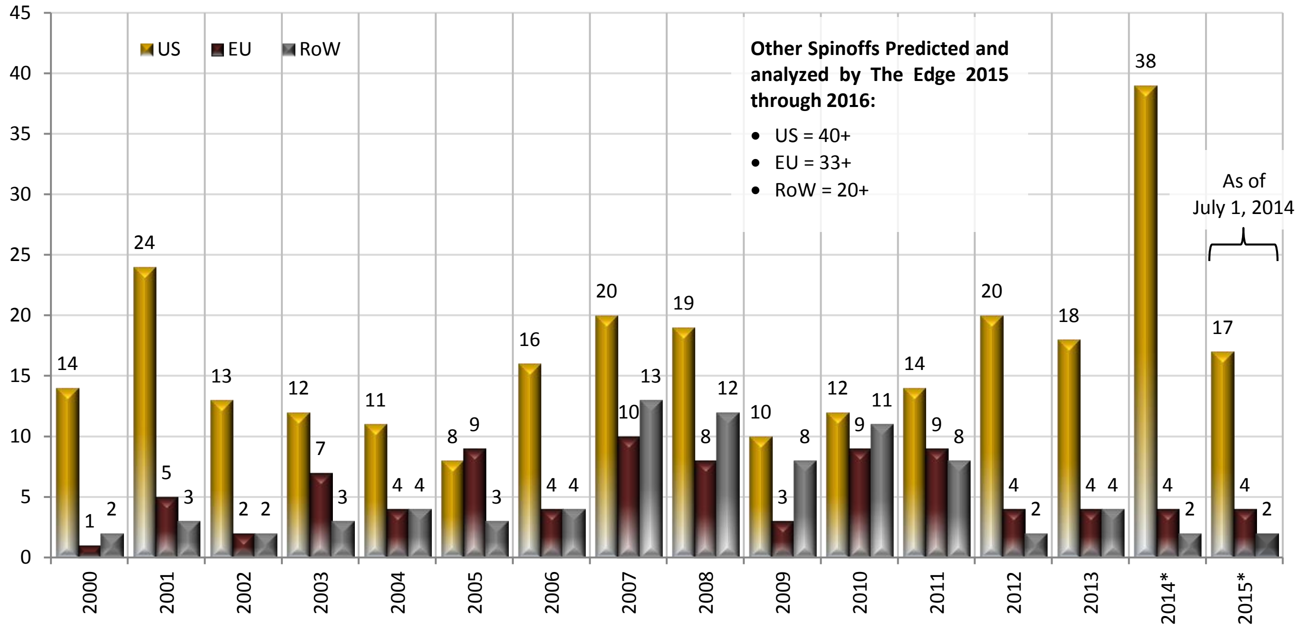
HISTORY OF SPINOFFS

Long overlooked by investors, Spinoff transactions have seen a substantial increase in volume. With the larger count of Spinoffs, the US has seen the most persistent rise in volumes over the years highlighting its value creation impact.

The Edge's analysis predicts that several companies with underperforming divisions could benefit from a demerger strategy and that we will see a rise in the number of Spinoffs going forward.

THE EDGE INVESTMENT IDEAS YOU CAN TRUST Deloitte.

Region-Wise Number of Parent Completed Spinoffs
Above $250m Market Cap (Jan 2000 – Dec 2014* and 2015's Already Announced Parents)



*Source: The Edge Research Team, Bloomberg (*Includes announced Spinoffs due to close in the respective calendar year, and excludes an incremental 100 predicted by The Edge. 2015 numbers are what is already confirmed and announced to close in 2015 as of July 1, 2014).*

KEY DRIVERS OF SPINOFFS VALUE CREATION

Previous studies have suggested several motives for value-maximizing corporate Spinoffs. We believe that amongst the multiple motives considered, the efficiency gain hypothesis and asymmetric information hypothesis are the two most important ones.

Often, **better focus, especially in the smaller unit, helps increase efficiency** through elimination of negative synergies between business segments (refocusing), increases in management contract flexibility, uplift in productivity, reduction of agency costs, etc.

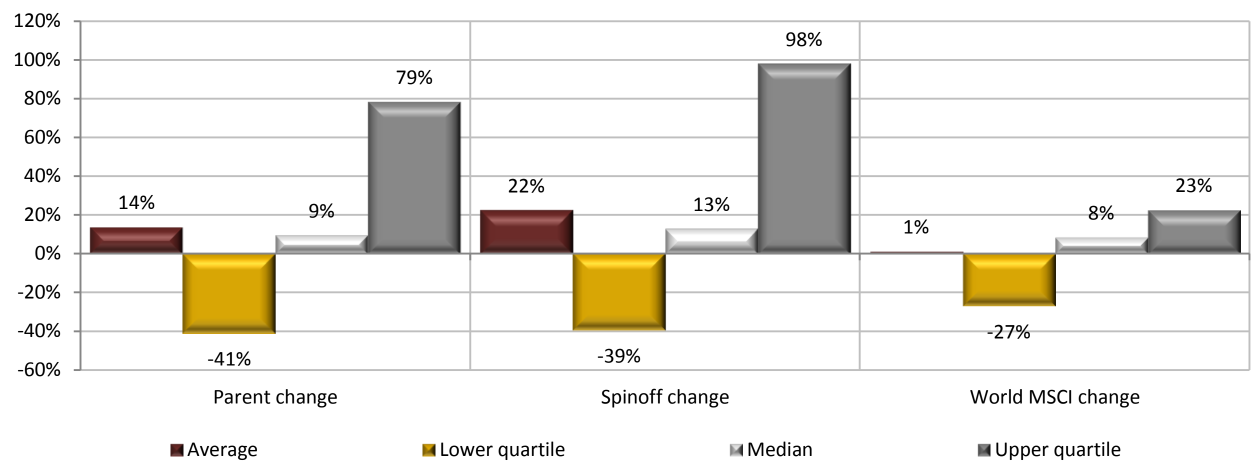
The **asymmetric information** hypothesis focuses on the idea that conglomerates are less transparent and typically undervalued. Hence, breaking up the conglomerate could improve the quality of information on each division, leading to valuation at par with peers and removal of the conglomerate discount. Still, not all transactions made money and there were value destroyers as well. We are frequently reminded that only select transactions across sectors are expected to create value for the shareholders through Spinoffs.

In addition, the value-creation through Spinoffs is not correlated to the pace of economic growth.

PERFORMANCE ANALYSIS: KEY TAKEAWAYS

Our global study suggests that over a year post demerger Parent and Spinoff companies have outperformed the MSCI World Index by 13% and 21%, respectively on average. This means, if an investor had invested $1,000 in Spinoff situations and held them for one year, then on average he would have got $210 more than what he had after investing the same amount in the MSCI World Index.

One Year After the Effective Date / Parent & Spinoff Performance Against Major Indices:



Source: The Edge Research Team, Bloomberg

The analysis shows that Spinoff companies performed better than Parent companies a year after the demerger on average, seeing an 8% higher average return. There are a number of reasons for this outperformance, the more pointed focus on newly revived management running a smaller business being a key one. In most cases, managers at Spinoffs have incentive compensation plans that are directly tied to the company performance, which acts as motivating factor.

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To find out more about The Edge and its stock research and / or equally explore the expanded 40 page study and its implications further, please contact:

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