

What is a Stock Spin-off?



About the Author



Rich Howe, CFA, is a full-time investor and entrepreneur.

Rich graduated from Trinity College in 2006 with a BS in Economics. Following graduation, Rich began his professional investing career at Eaton Vance. As an equity research associate, he completed the Chartered Financial Analyst program. At Eaton Vance, Rich had the opportunity to cover the healthcare, financials, software, and internet sectors.

In 2013, Rich left Eaton Vance to join Citi Private Bank as a Vice President on the private equity research team where he focused on sourcing, originating, and diligencing private equity opportunities in the Americas. In 2018, Rich left Citi to found [Stock Spin-off Investing](#), an independent research firm focused exclusively on stock spin-offs.

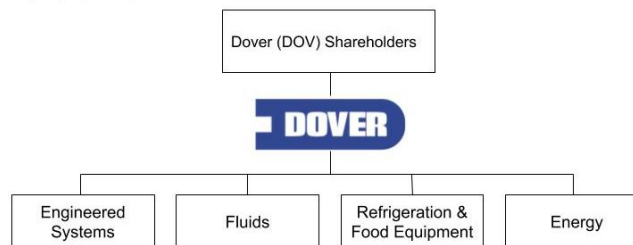
Rich lives outside of Boston, MA, with his wife and two young children. When Rich isn't busy researching spin-offs or chasing around his kids, he enjoys CrossFit, golf and snowboarding.

A spin-off occurs when a publicly traded company separates part of its business into a second public company and distributes its shares in the new business on a pro-rata basis to existing investors. Spin-offs occur because management thinks their business is undervalued by the market, and believes (with good reason) splitting the business up into a simpler structure will force investors to re-value the spin-off and parent more inline with comparable companies. Let's walk through an example to see how the spin-off process works in practice.

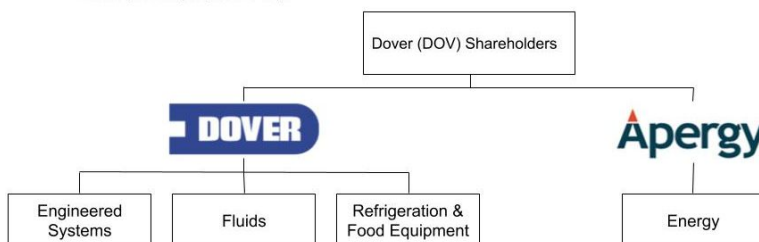
On May 8, 2018, Dover (DOV), a conglomerate manufacturer of industrial products, spun off its energy business, Apergy (APY), into an independent public company and distributed its shares to existing Dover shareholders.

Dover Corp Organizational Structure

Pre spin-off (May 7, 2018):



Post spin-off (May 8, 2018):



The distribution ratio was 1 : 2 which means that for every 2 shares of Dover owned, an investor would receive 1 share in the new company, Apergy. Prior to the spin-off, let's assume a hypothetical investor owned 1,000 share of DOV. After the spin-off, that same investor would have owned 1,000 shares of DOV, and also, 500 shares of APY.