

# Corporate Castoffs Can Be Keepers

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By Marlene Givant Star

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When corporations decide to dispose of “non-core” assets, investors should pay attention.

According to a [report by KIRR, Marbach & Co.](#), spinoffs often end up being home runs.

Mark Foster, chief investment officer of the [Columbus](#), Indiana-based investment firm, says “smaller companies tend to fall between the cracks.” When they’re spun off, it represents an opportunity “to own a good business at a cheap price. Any spin that gets announced, we’ll take a look at.”

The value of spinoffs is increasing. In the 12 months ended September 30 this year, [mergermarket](#) identified nine spinoffs valued at \$53.6 billion that were approved by corporate boards. In the 12 months ended September 30, 2011, there were 11 spinoffs valued at \$42.056 billion, according to [mergermarket](#) data.

**Parts greater than sum?** *Six of the 10 major corporate spinoffs in the past 12 months have resulted in growth for the castoff operations.*

Announcement Date	Target Company	Industry	Bidder Company (shareholders)	Seller	Deal Value (US\$m)	Ticker Symbol	Current Market Cap (US\$m)	Value Change
04-Apr-12	Phillips 66	Energy, Mining & Utilities	ConocoPhillips Company (shareholders)	ConocoPhillips Company	20,790	PSX	28,580	7,790
14-Aug-12	Kraft Foods Group Inc	Consumer	Kraft Foods Inc (shareholders)	Mondelēz International Inc	29,284	KRFT	27,810	1,316
25-Oct-11	Marriott Vacations Worldwide Corporation	Leisure	Marriott International Inc (shareholders)	Marriott International Inc	756	VAC	1,300	622
20-Dec-11	Rouse Properties Inc	Real Estate	General Growth Properties Inc (shareholders)	General Growth Properties Inc	387	RSE	751	364
26-Jun-12	Hyster-Yale Materials Handling Inc	Industrials & Chemicals	NACCO Industries Inc (shareholders)	NACCO Industries Inc	336	HY	554	218
25-Apr-12	Fiesta Restaurant Group Inc	Leisure	Carrols Restaurant Group Inc (shareholders)	Carrols Restaurant Group Inc	290	FRGI	305	15
02-Dec-11	Alexander & Baldwin Inc	Real Estate	Alexander & Baldwin Holdings Inc (shareholders)	Matson Inc	1,136	ALEX	1,130	-6
18-Oct-11	WPX Energy Inc	Energy, Mining & Utilities	The Williams Companies Inc (shareholders)	The Williams Companies Inc	3,906	WPX	3,440	-168
04-Jun-12	AbbVie Inc	Pharma, Medical & Biotech	Abbott Laboratories (shareholders)	Abbott Laboratories	not valued yet			n/a

Among KIRR Marbach’s winning spinoff plays was Ascent Capital Group (Nasdaq: ASCMA), a collection of networks and creative services businesses spun off from Discovery Holding Company, the parent of [Discovery Communications](#), in December 2007. Initially, the stock did poorly because spinoffs have a bad rap with investors. “Many investors look at spinoffs as corporate waste, an orphan pushed aside to let the parent company shine. We see it as the exact opposite,” the report said. Ascent’s stock began trading at \$33.95 a share but fell to \$17.86 after only three months. It has since rebounded to \$57.53.

While big company spinoffs — such as Kraft’s carve-out of its snack business early this month — are widely followed by analysts, others get little institutional attention, he says. For instance this month Nacco Industries (NYSE: NC) split off its Hyster-Yale material handling business (NYSE: HY) from its other units, which are in a “hodgepodge” of segments, according to Foster, including coal mining, small appliances and specialty retail. It turns out the spun off company is a leader in the forklift sector, “more of a pure play” than the parent company. Now that it has been spun off, “my guess is we’ll see acquisitions there,” Foster says.

On the flipside, Foster says a good number of spun off companies end up being acquired down the road. Tyco (NYSE:TYC) spun off its ADT Corp. (NYSE: ADT) alarm security business as a separate public company on October 2 after selling its pipe and valve business earlier this year to pump maker Pentair. What’s left of Tyco is focused on commercial fire protection systems and equipment. Foster says he would be “shocked” if Tyco remains a standalone company a year from now.

Why are spun off companies so successful? According to Foster, the answer is simple: When you separate the companies out, “you incentivize the new management to allocate the capital the way they want.”

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