Why we like spinoffs so much

We think that spinoffs are the closest thing you can find to a sure thing for two main reasons:

1) The management of a parent company will only hand out shares in a subsidiary to its own investors if it's all but certain that business, and the parent, will be better off after the spinoff.

2) Spinoffs involve a lot of work and legal fees. The parent will only spin off the unwanted subsidiary if it can't sell the stock for what it feels it's worth.

That's why firms have an incentive to do spinoffs under two sets of favourable conditions: When they feel it is not a good time to sell (which often means it's a good time to buy); or, when they feel the assets they plan to spin off will be worth substantially more in the future.

Needless to say, things don't always work out. Spinoffs and their parents do sometimes run into unforeseeable woes. But on the whole, in investing, spinoffs are the closest thing you can find to a sure thing.

Our Takeover Target Rating (TTR)

Our Takeover Target Rating considers a range of factors to determine the chances of a spinoff company attracting takeover interest in the short to medium term:

We look for a profitable spinoff with low debt and with hidden assets. As well, spinoffs with no major shareholder and facing little regulatory or anti-trust constraints have strong appeal.

Does the spinoff have an affordable market value, meaning it's a manageable purchase for a major industry competitor? Spinoffs with top-quality, but under-performing, assets also attract takeover interest. This includes profit margins that are lower than industry norms. That lets a buyer cut costs and improve profits.

Potential buyers will often look past a spinoff's poor management or its lack of financial resources.

Spinoffs with most of these factors receive our **Highest** *Takeover Target* Rating. Those with many receive a **Medium** rating, while those with few, **Lowest.**

Spinoffs featured in this issue

Parent Company	Symbol	Price $	P/E	Div. %	Advice	TTR	Date of Spinoff	New Spinoff	Symbol	Price $	P/E	Div. %	Advice	TTR
MSG Sports	MSGS	403	n.a.	—	Hold	Low.	Oct. 2026	NY Rangers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
								NY Knicks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DuPont	DD	140	19.3	1.7	Buy	Med.	Nov. 2025	Qnity	Q	126	28.1	0.3	Hold	Med.
Lions Gate	LION	12	37.5	—	Hold	Med.	May 2025	Starz	STRZ	27	n.a.	—	Hold	Med.
H&R REIT	HR.UN	10	9.3	6.0	Hold	High	Jan. 2022	Primaris	PMZ.UN	22	13.7	4.0	Buy	Med.
IBM	IBM	237	18.9	2.9	Buy	Med.	Nov. 2021	Kyndryl	KD	12	6.7	—	Hold	Med.
RTX	RTX	220	31.1	1.3	Buy	Med.	Apr. 2020	Carrier	CARR	61	21.0	1.6	Buy	Med.
								Otis	OTIS	72	17.7	2.4	Buy	Med.
Conagra	CAG	16	11.0	4.4	Buy	Med.	Nov. 2016	L. Weston	LW	54	17.7	2.8	Buy	High