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
Johnson	JNJ	256	21.9	2.1	Buy	Med.	2027	DePuy S.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
							Aug. 2023	Kenvue	KVUE	19	16.1	4.4	Hold	High
Comcast	CMCSA	24	6.9	5.5	Hold	Low	2027	NBCUniv.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
							Jan. 2026	Versant	VSNT	36	8.4	4.2	Hold	Low
Honeywell	HON	233	57.5	—	Buy	Med.	June 2026	Hon. Aero.	HONA	208	22.6	—	Hold	Med.
							Oct. 2025	Solstice	SOLS	61	22.7	0.5	Buy	Med.
IBM	IBM	206	17.1	3.3	Buy	Med.	Nov. 2021	Kyndryl	KD	12	6.4	—	Hold	Med.
RTX	RTX	195	27.9	1.5	Buy	Med.	Apr. 2020	Carrier Gl.	CARR	68	23.8	1.4	Buy	Med.