

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 underperforming, 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	Sym-bol	Price \$	P/E	Div. %	Ad-vice	TTR	Date of Spinoff	New Spinoff	Sym-bol	Price \$	P/E	Div. %	Ad-vice	TTR
Corteva	CTVA	83	22.3	0.9	#1 Buy	Med.	2026	Seed div.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
								Crop div.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
West. Dig.	WDC	494	49.8	0.1	Hold	Med.	Feb. 2025	Sandisk	SNDK	1,447	22.4	—	Hold	Med.
Becton D.	BDX	144	11.9	2.9	Buy	Med.	April 2022	embeckta	EMBC	3.12	1.9	1.3	Hold	Med.
IBM	IBM	215	18.6	3.1	Buy	Med.	Nov. 2021	Kyndryl	KD	11	5.8	—	Hold	Med.
Merck	MRK	113	22.0	3.0	Buy	Med.	June 2021	Organon	OGN	13	n.a.	0.6	Hold	High
Yum Br.	YUM	150	22.2	2.0	Buy	Med.	Nov. 2016	Yum China	YUMC	47	16.1	2.5	Buy	Med.
eBay	EBAY	113	17.8	1.1	Buy	Med.	July 2015	PayPal	PYPL	45	8.6	1.2	Buy	Med.

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