

Spin-Offs Outperforming the Market This Year

You can beat the Street. At a time when many professional investors lament that the proliferation of ETFs and widespread use of screening techniques have made it harder to find bargains in the stock market, one simple investing approach continues to outperform: spin-offs.

Spin-offs have long been a fruitful investment area; a number of academic studies show that they historically have generated far better returns than the overall stock market. A spin-off occurs when a corporation issues stock in a subsidiary to its shareholders to create a new public company. A related corporate event is an IPO carve-out, through which a company sells the public a stake in a unit, while retaining the rest of the division. (Sometimes, the remainder is later distributed to shareholders).

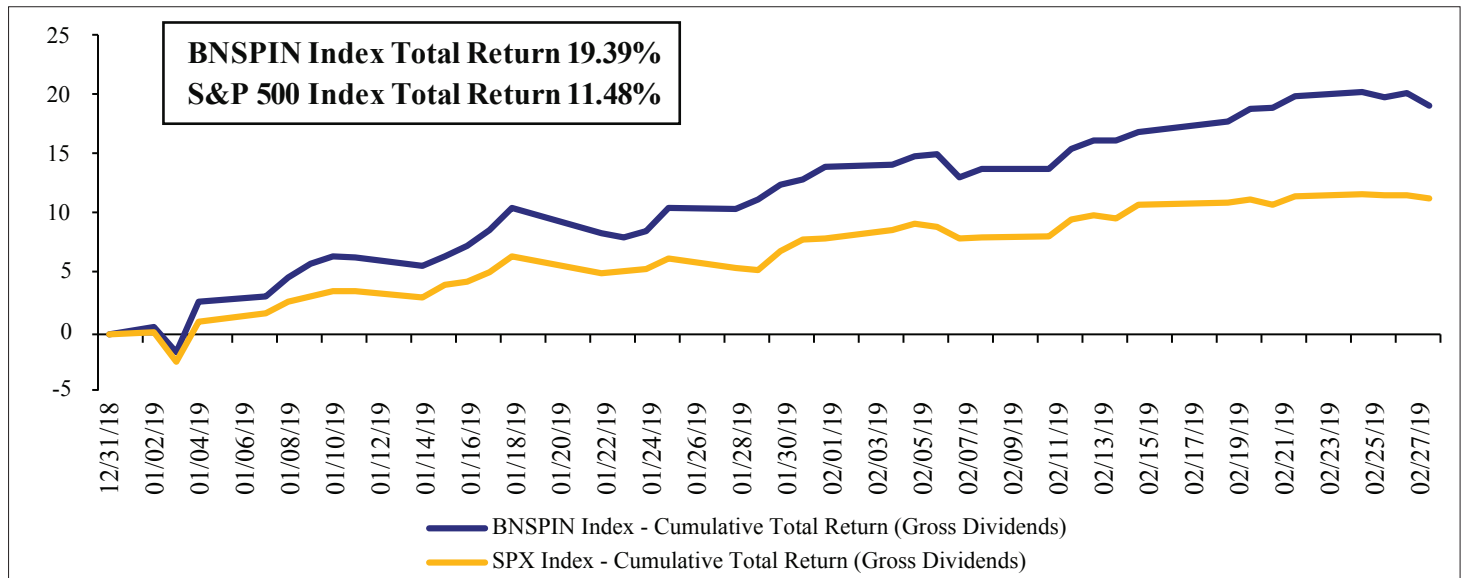
The Bloomberg U.S. Spin-Off Index, composed of companies spun off from larger companies within the past three years, has outperformed the broader market by nine percentage points since the start of the year through Tuesday (February 26th). The 35 member index contains equities with a value over \$1 billion that were spun-off from U.S. companies.

The Index is paced by Fortive Corp (FTV), a diversified industrial company that focuses on professional instrumentation, automation, sensing, and transportation technologies, which was spun off by Danaher (DHR) tax-free on July 5th, 2016. Fortive holds a nearly 17 percent weigh in the Bloomberg Index. Fortive has jumped nearly 20 percent in the first two months of 2018. The Danaher separation of Fortive has created significant shareholder value. Since the breakup (7/5/16), Fortive has provided a total return of nearly 70%. The parent, Danaher also outperformed the market which returned 61 percent over the same period. The market (S&P 500) posted a 41 percent return. The Bloomberg Spin-Off Index returned 56 percent over the same time frame.

The Bloomberg US Spin-Off Index has surged 19.39% in the first 2 months of 2019. The S&P 500 Index has increased 11.48% year to date. The spin index generated a total return of 76.70% in the past 5 years (versus 65.93% total return for the S&P 500). **The Bloomberg US Spin-Off Index has produced a total return of 973% since inception December, 31, 2002 (versus 342% for S&P 500 index).** Versum Materials (VSM) and Apergy Corp. are the top performers in the index since January rising 76 percent and 57 percent, respectively.

Bloomberg U.S Spin-Off Index Top Weighting

Name	Ticker	Weight	Price
Fortive Corp	FTV	16.68171	81.58
DXC Technology Co	DXC	11.005911	66.14
Yum China Holdings Inc	YUMC	9.455169	41.79
Lamb Weston Holdings Inc	LW	5.934401	69.25
Park Hotels & Resorts Inc	PK	3.696916	31.365
Alcoa Corp	AA	3.221782	29.485
Versum Materials Inc	VSM	3.104734	48.63
Wyndham Hotels & Resorts Inc	WH	3.079701	52.81
nVent Electric PLC	NVT	2.884715	27.59
Ingevity Corp	NGVT	2.848188	115.47

Spin-Off Index YTD

SPINNING RETURNS

The Bloomberg Spin-Off Index continues to outperform the stock market

Total Return	YTD	5-year return	10-year return
Bloomberg Spin-Off Index	19.39%	76.70%	662.77%
S&P 500	11.48%	65.93%	367.00%

Why do spin-offs outstrip the market? Spins benefit from greater management focus and accountability as stand-alone public companies (versus when they were part of larger enterprises). The rationale for spin-offs varies. Some companies wish to get rid of a weak or low-margin division that is detracting attention from the parent. Other companies seek to highlight the attributes of a desirable unit whose full value may not be reflected in the parent's stock price. There also is pressure on managements from the growing number of activist investors, whose prescription for a lagging stock often is a breakup.

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