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TRIVARIATE RESEARCH

SPIN-OFFS: WE WILL SEE MORE IN 2025

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RESEARCH SUMMARY

Background: While the historical performance of spin-offs are mixed, there is no doubt that management teams are increasingly being advised by law firms and investment bankers about the potential to unlock or create value through spins. Some high profile recent successes, like GE Vernova spun from GE earlier this year can certainly help convince boards and management teams. Moreover, the positive regulatory environment that has fueled many recent M&A announcements will likely catalyze numerous spin-offs as well in 2025. Conglomerates, businesses in multiple end-markets and sectors, and those valued on a sum-of-the-parts basis are all obvious candidates.

Data: Over the last 25 years, spins have occurred only a handful of times a year. About $\frac{3}{4}$ of these spin-offs close within a year of the announcement, though some never close. There have been eight announcements so far in 2024. Most remain-cos are spinning off less than 30% of their market capitalization, although more than 10% have been more than 60% of the remaining company's size. Historically, $\frac{2}{3}$ rd of the spin-cos were small- or micro-cap. The most common companies to engage in spin-offs are Capital Goods (in the Industrials Sector), followed by Technology Hardware and Energy, and the most common spin-cos are Capital Goods and Software & Services. Relatively fewer growth companies engage in spin-offs, as about 90% of all spins are done from value stocks or stocks in the middle style tertile we label as “neither.” Spin-cos have similar profitability and leverage than remain-cos.

On average, spin-cos outperform the remain-cos post closing date: Remain-cos on average perform in line with the S&P500 over the subsequent year post the spin-off closing date, but spin-cos outperform by an average of 10% over the subsequent 18-24 months. On average, spin-offs outperform the remain-cos for the first 400 trading days post-completion after the first five trading days.

INVESTMENT CONCLUSIONS

Different industry spins matter: It is noteworthy that **companies spinning off businesses in different industries tend to perform better than those being spun off in the same industries.** On average, companies spinning off businesses into different industries outperform the S&P500 by more than 10% over the 18-24 months following deal completion. On the other hand, remain-co performance is not meaningfully different if the spin was in the same or different industry than the remain-co on average over the first 350 trading days.

High-quality companies should not do spin-offs: The highest quality remaining companies that engaged in spin-offs were by far the worst performing, lagging the market by 15% on average over the first year. **When all but the highest quality companies spin off junk stocks, the spin-cos perform the best.** Something about breaking up a high-quality company creates dis-synergies. Remain-cos average two turns of multiple expansion on price-to-forward earnings over the subsequent two years post spin-off announcement, but the highest quality quartile sees multiple contraction.

Best spin-offs and remain-cos: We show the top ten best performing remain-cos and spin-cos on Slide 16. GE and GE Vernova this past year have both been great stocks since the spin-off. BAX / EW, DLX / EFDS, HWM / ARNC, and MCD / CMG were examples where both the remain-co and spin-co performed well in the 12-months following the deal.

On Slide 17, we show that there have been no recent examples of both the remain-co and spin-co materially lagging (i.e., the worst ten ever), a likely positive for management teams to engage in more spin-offs. WCOM / MCIT, IAC / VMEQ, COMS / PALM, VFC / KTB were examples where both the remain-co and spin-co performed poorly in the 12-months following the transaction. IAC, VFC, and EQT were all in the last six years.

RECENT SPIN-OFFS INCLUDE GE, MMM, AND CMI

There have been several high-profile spin-offs in the last 18 months, including GE Vernova from GE, Solvntum from MMM, and Atmus Filtration from CMI. We expect management teams to attempt to create value by engaging in more spins in 2025.

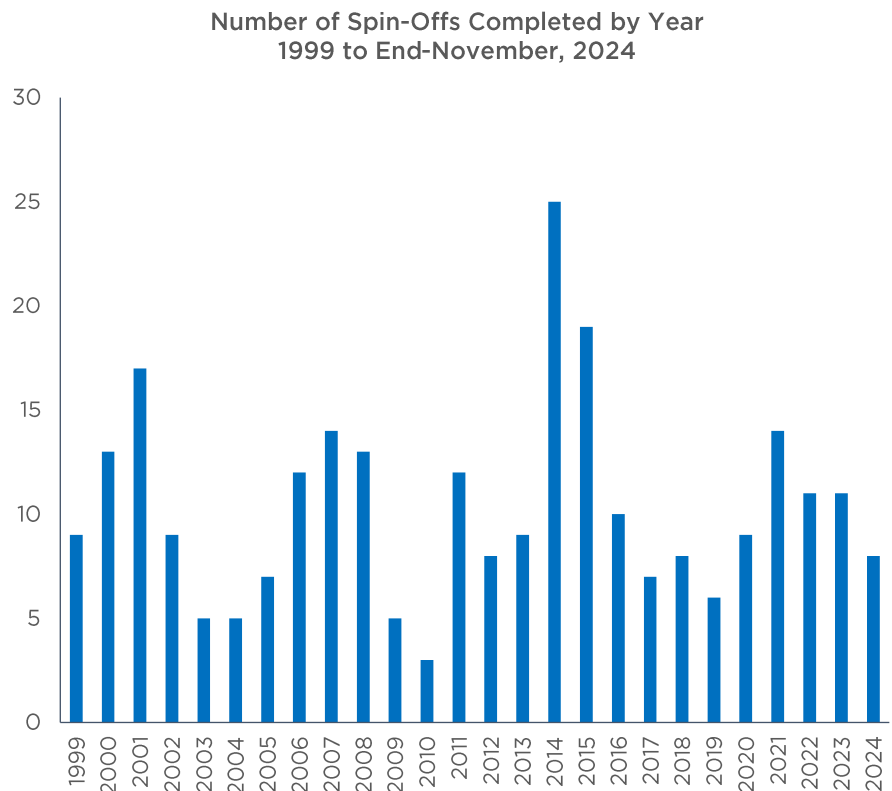
10 Most Recent Spin-Off Closures, Remain-Co Mid-Cap or Larger, Spin-Co Small-Cap or Larger
As of End-November, 2024

Remain Co. Ticker	Remain Company	Spin Co. Ticker	Spin Company	Spin-Off Closing Date	Remain Co. Market Cap.	Spin Co. Market Cap.	Average 1yr S&P500 Relative Return	Remain Co. 1yr Total Return	Spin Co. 1yr Total Return
GE	General Electric Company	GEV	GE Vernova	4/2/2024	149.20	38.09	60%	30%	138%
MMM	3M Company	SOLV	Solvntum Corporation	4/1/2024	52.03	11.93	8%	47%	4%
CMI	Cummins Inc.	ATMU	Atmus Filtration Tech.	3/13/2024	38.34	2.18	33%	42%	73%
FLEX	Flex Ltd.	NXT	Nextracker	1/2/2024	13.13	2.94	(1%)	73%	(21%)
K	Kellanova	KLG	WK Kellogg Co	10/2/2023	17.97	1.14	(1%)	50%	22%
DHR	Danaher Corporation	VLTO	Veralto Corporation	9/30/2023	183.19	20.81	(5%)	28%	33%
ARMK	Aramark	VSTS	Vestis Corporation	9/30/2023	9.06	2.52	(1%)	55%	15%
JNJ	Johnson & Johnson	KVUE	Kenvue Inc.	8/23/2023	427.61	45.23	(25%)	1%	(5%)
BWA	BorgWarner Inc.	PHIN	PHINIA Inc.	7/3/2023	11.70	1.41	(20%)	(25%)	26%
LH	Labcorp Holdings Inc.	FTRE	Fortrea Holdings	6/30/2023	21.38	3.01	(34%)	(1%)	(33%)
MDU	MDU Resources Group	KNF	Knife River Corporation	5/31/2023	5.94	2.07	30%	30%	99%

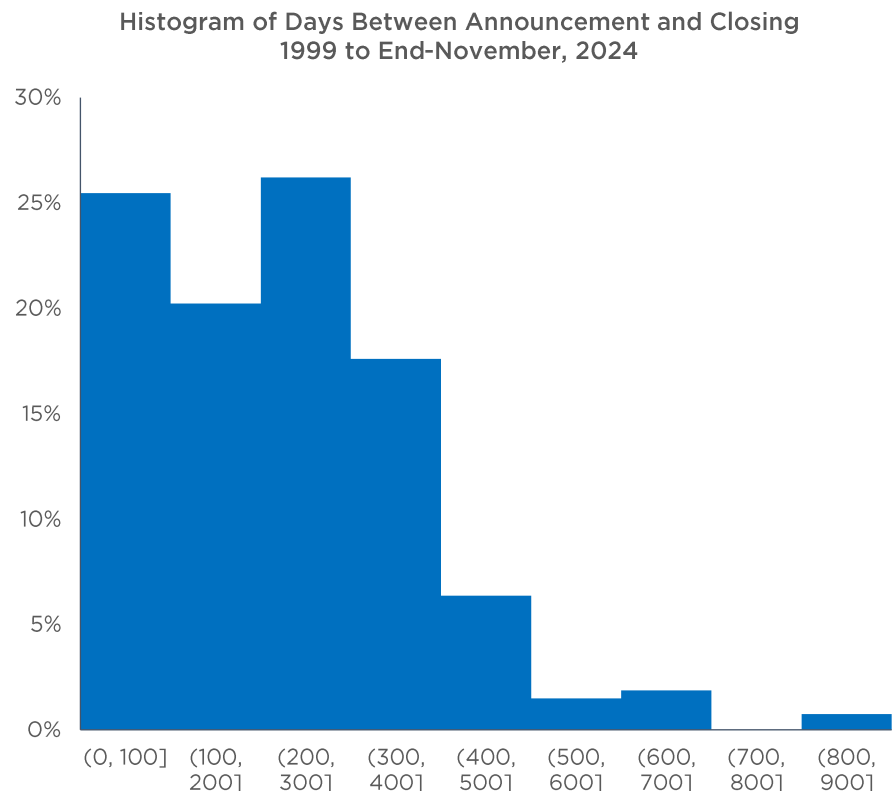
Source: Trivariate Research

SPIN-OFFS ARE INFREQUENT, $\frac{3}{4}$ OF THEM CLOSE WITHIN A YEAR

Over the last 25 years, spins have been used only a handful of times per year (left). If we include micro-caps, there have been eight so far in 2024. About three-quarters of the deals close within a year of the announcement (right), though some never close. The timing of the announcement vs. the closing matters to our analysis of the performance of the “remain-co” – the company that is left behind after the “spin.”



Source: Trivariate Research

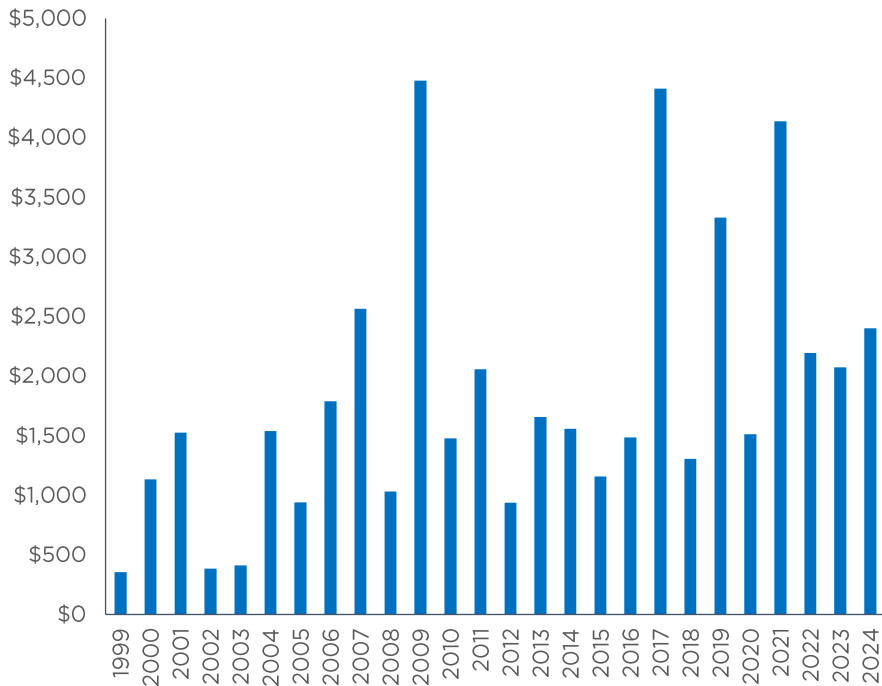


Source: Trivariate Research

THE SIZE OF THE SPINS ARE GRADUALLY GETTING LARGER

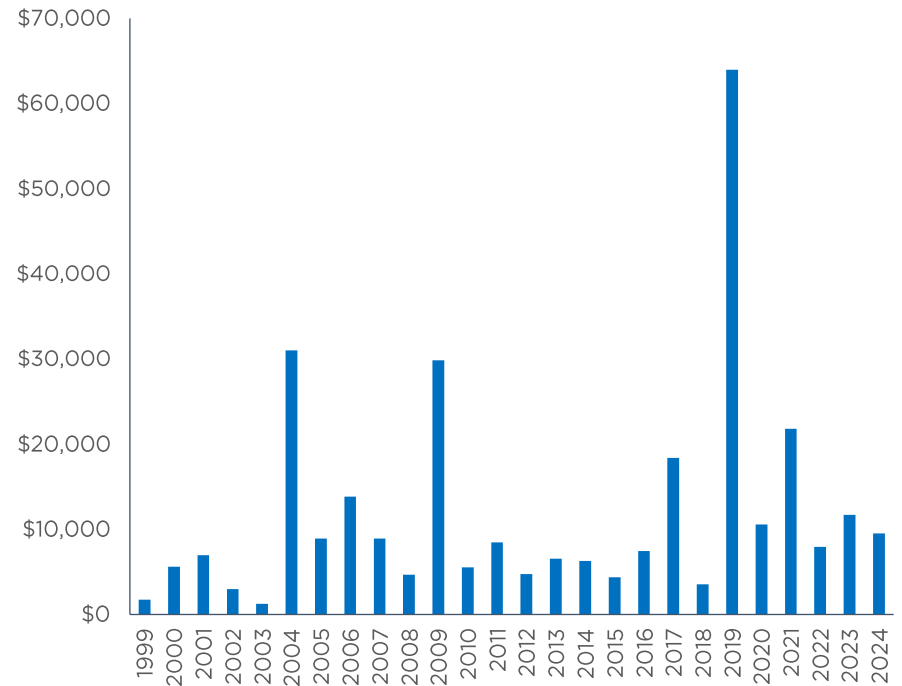
Before the financial crisis, most spin-offs were small, averaging less than \$1 billion in market capitalization at the time of the spin. More recently, the average spin-off has been closer to \$2.4 billion (left). The remaining companies have also gotten bigger, with the median of the recent spins around \$9.5 billion (right).

Median Spin-Co. Market Capitalization (Millions) by Year
At Spin-Off Closing Date
1999 to End-November, 2024



Source: Trivariate Research

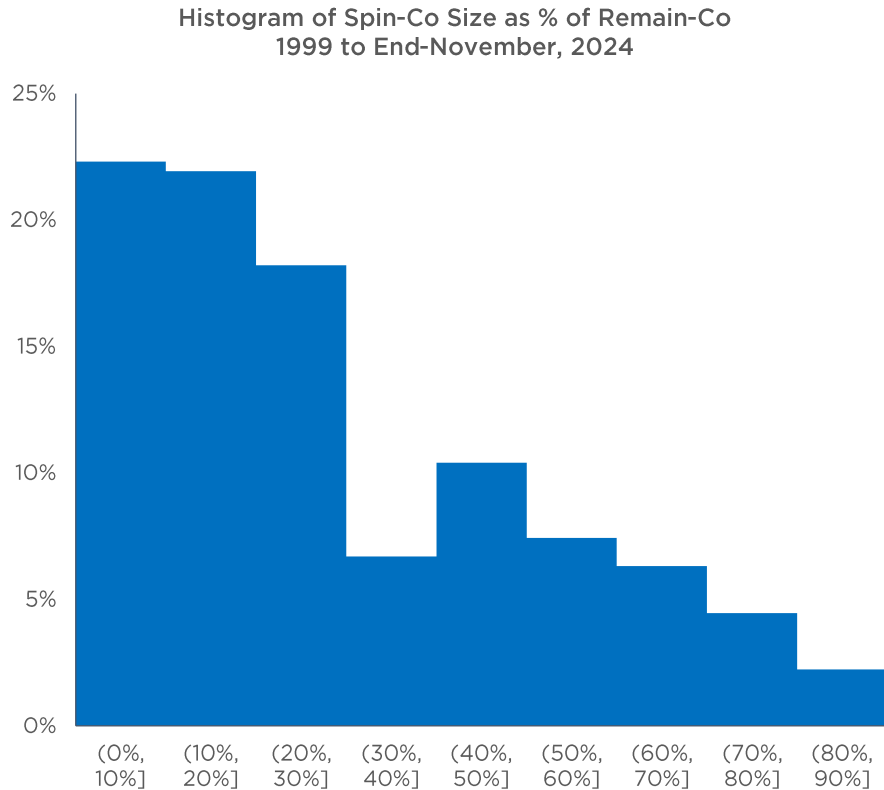
Median Remain-Co. Market Capitalization (Millions) by Year
At Spin-Off Closing Date
1999 to End-November, 2024



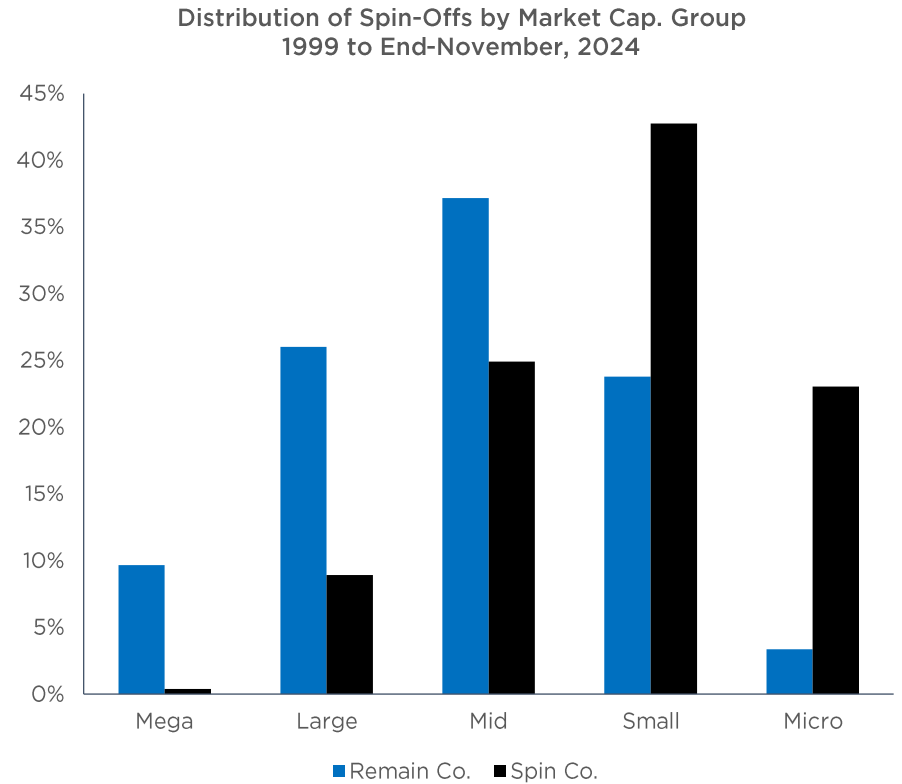
Source: Trivariate Research

MOST SPIN-OFFS ARE 30% OR LESS OF THE MARKET CAP

Most remain-cos are spinning off less than 30% of their market capitalization (left), although more than 10% have been more than 60% of the remaining company's size. Historically, 2/3rd of the spin-cos were small- or micro-cap (right).



Source: Trivariate Research



Source: Trivariate Research

WE DO NOT SEE A LARGE SUBSTANCE BIAS WITH SPIN-COS

We evaluated the remain-cos and spin-cos by substance and size. High-quality companies are more likely to spin out high-quality companies, and junk quality companies rarely spin out high-quality companies (left). However, there is not a huge substance difference between remain-cos and spin-cos. The only mega / mega remain / spin-co was Altria and MO (right). Micro-cap companies rarely engage in spins.

Number of Spin-Offs by Spin-Co and Remain-Co Quality Bucket
1999 to End-November, 2024

Remain Co.	Spin Co.			
	High	Mid	Low	Junk
High	14	7	6	6
Mid	8	15	7	9
Low	8	11	6	11
Junk	6	13	13	12

Source: Trivariate Research

Number of Spin-Offs by Spin-Co and Remain-Co Cap. Bucket
1999 to End-November, 2024

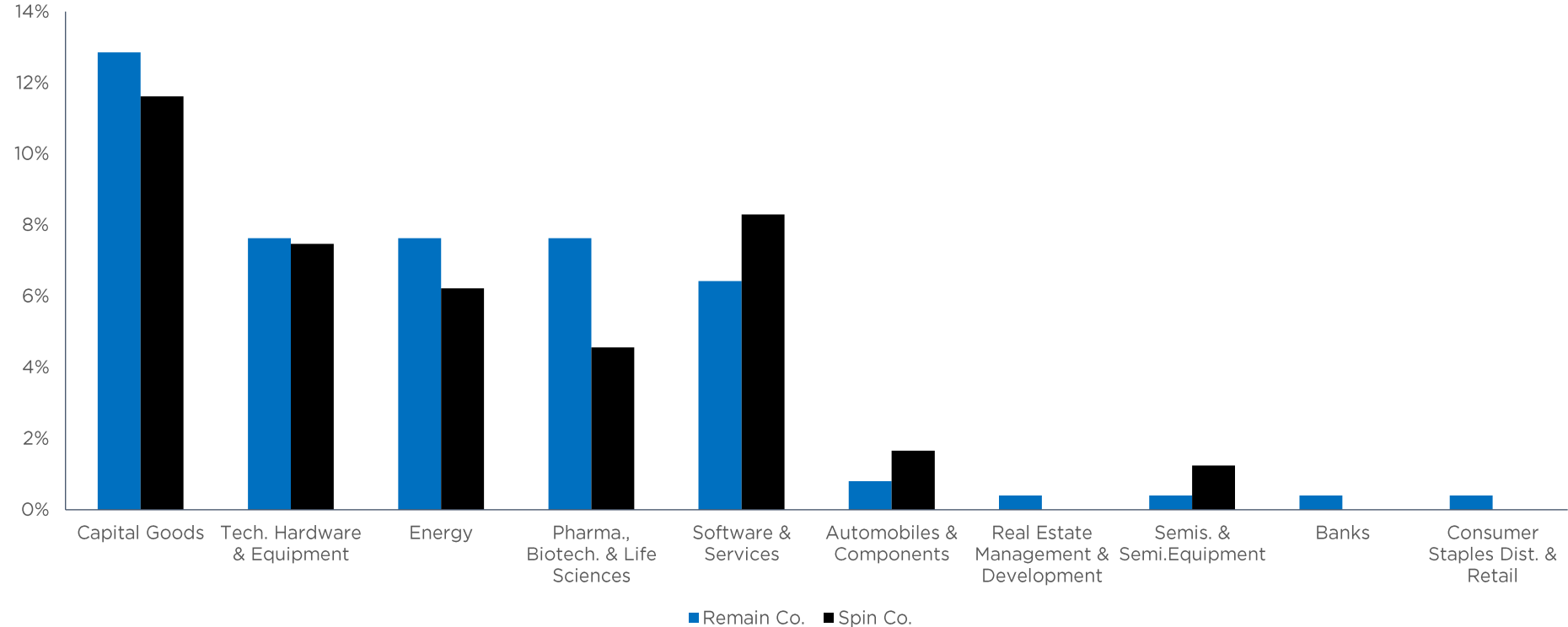
Remain Co.	Spin Co.				
	Mega	Large	Mid	Small	Micro
Mega	1	13	12		
Large		11	30	26	3
Mid			25	60	15
Small				29	35
Micro					9

Source: Trivariate Research

CAPITAL GOODS AND TECHNOLOGY HARDWARE COMMONLY SPIN

We analyzed spin-offs by sector since 1999. The most common companies to engage in spin-offs are Capital Goods (in the Industrials Sector), followed by Technology Hardware and Energy, and the most common spin-cos are stocks in the Capital Goods and Software & Services industries.

Distribution of Spin-Offs by Industry Group
 5 Most and Least Common Industry Groups
 Through End-November, 2024

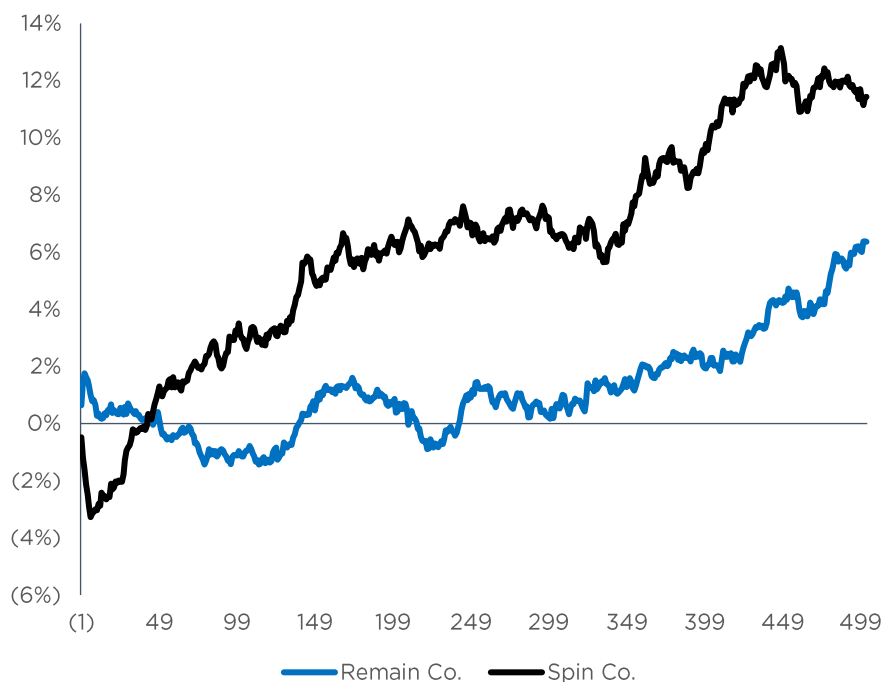


Source: Trivariate Research

SPIN COMPANIES OUTPERFORM MARKET AND REMAIN-COS.

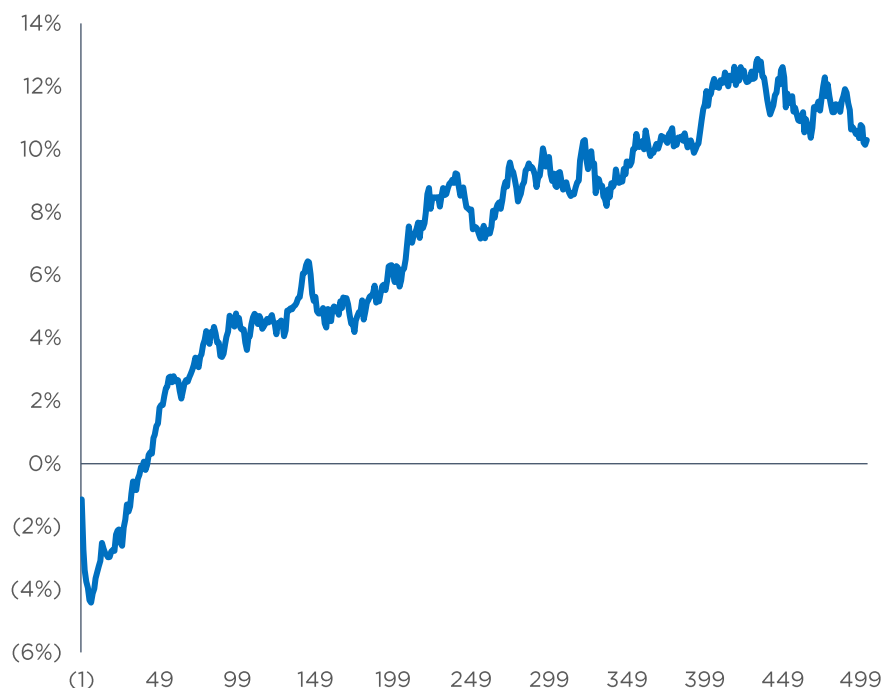
On average, the spin-cos outperform the remain-cos post closing date. Remain-cos on average perform in line with the S&P500 over the subsequent year post the spin-off closing date (left), but spin-cos outperform by an average of 10% over the subsequent 18-24 months. On average, spin-offs underperform the remain-cos for the first five days post deal completion, (right) but then outperform by an average of 12% for 400 trading days post-completion.

Cumulative Mean S&P500 Relative Returns
by Market Days Following Spin-Off Closing Date
1999 to End-November, 2024



Source: Trivariate Research

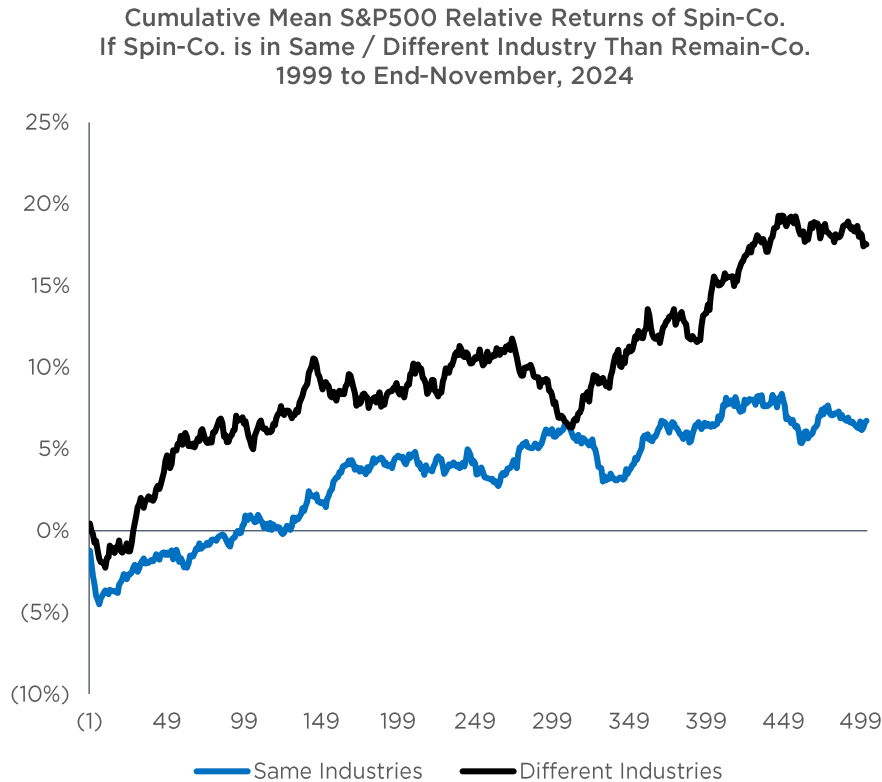
Cumulative Mean Spread Between Spin-Co. vs. Remain-Co.
by Market Days Following Spin-Off Completion
1999 to End-November, 2024



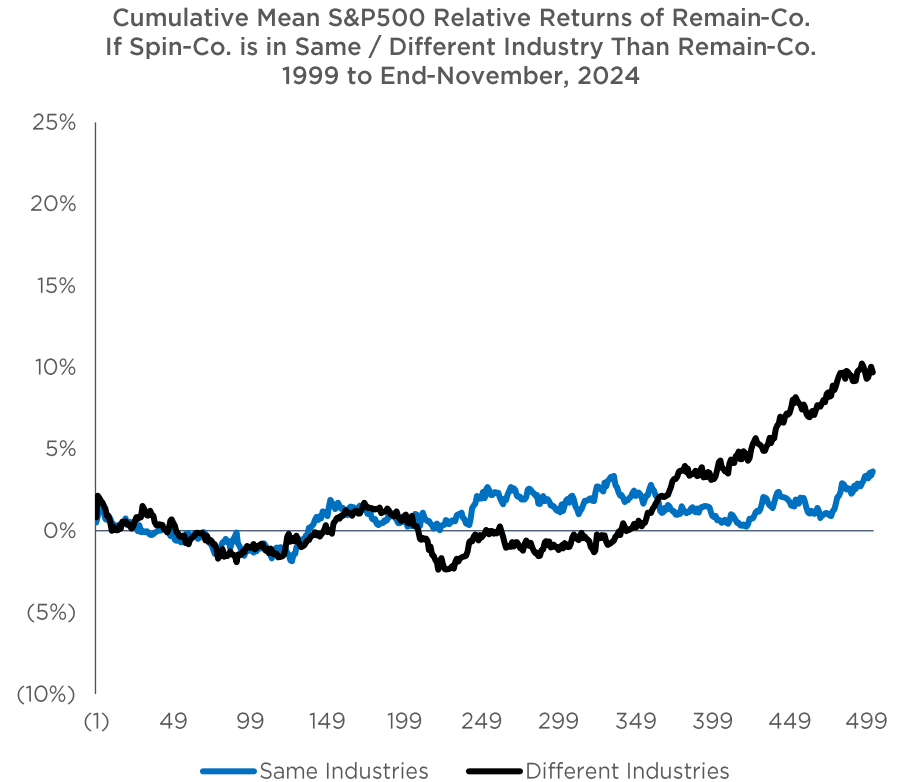
Source: Trivariate Research

SPINOFFS IN DIFFERENT INDUSTRIES OUTPERFORM

It is noteworthy that companies spinning off businesses in different industries tend to perform better than those being spun-off in the same industry. On average, companies spinning off businesses into different industries outperform the S&P500 by more than 10% over the 18 months following deal completion (left), with spin-cos into different industries beating spin-cos into the same industry by more than 600bps in the first four months. On the other hand, remain-co performance over the first 350 days is not meaningfully different on average if the spin was in the same or different industry (right).



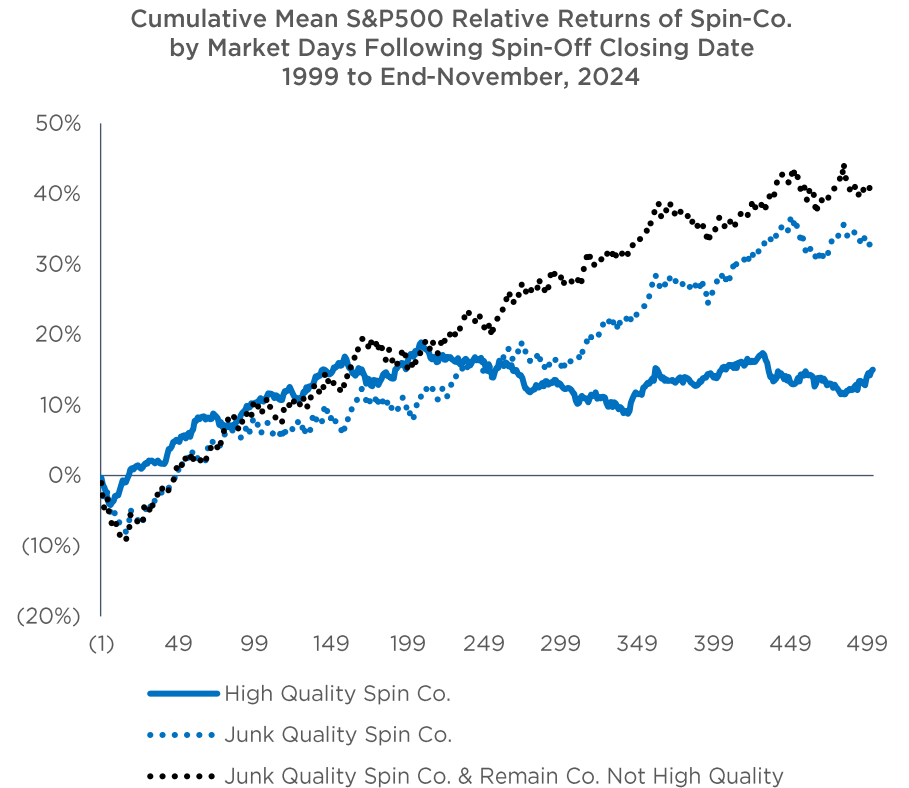
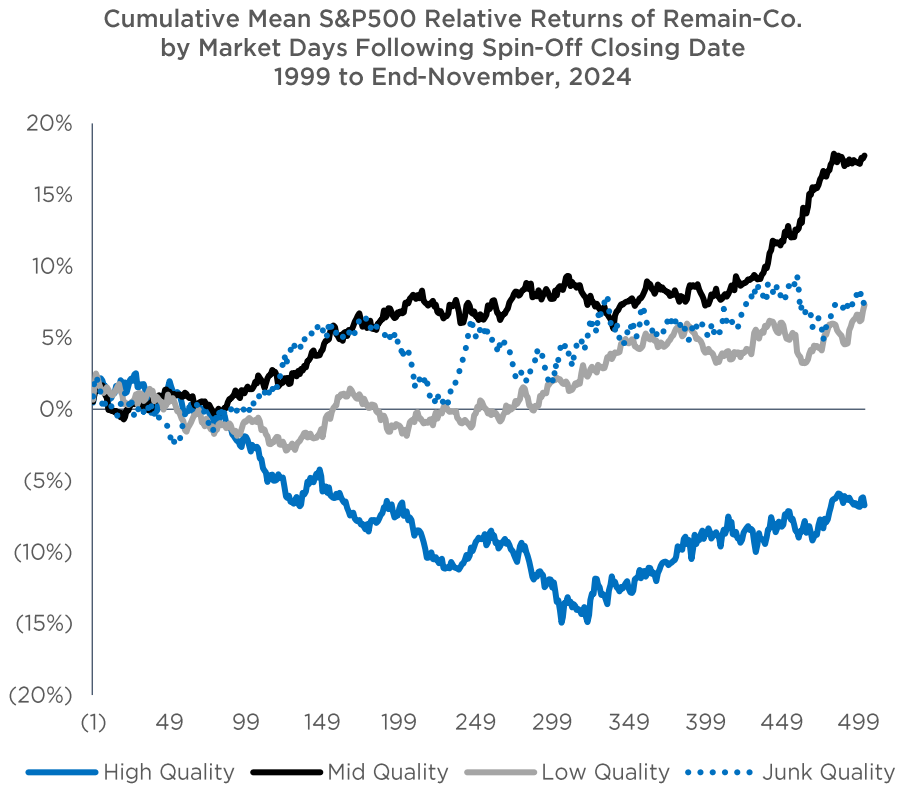
Source: Trivariate Research



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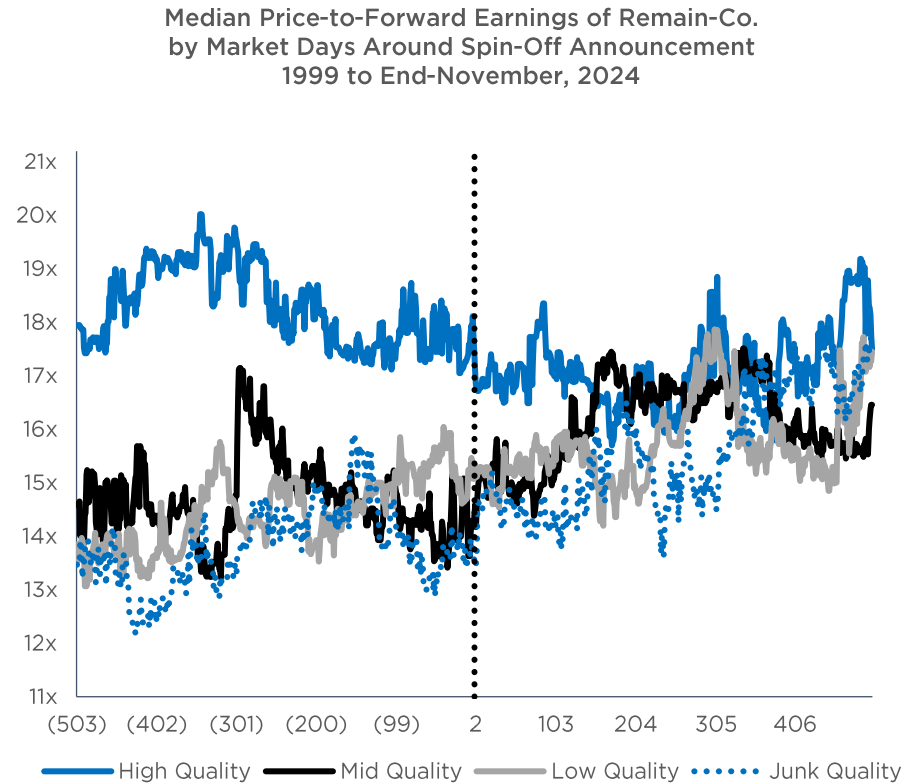
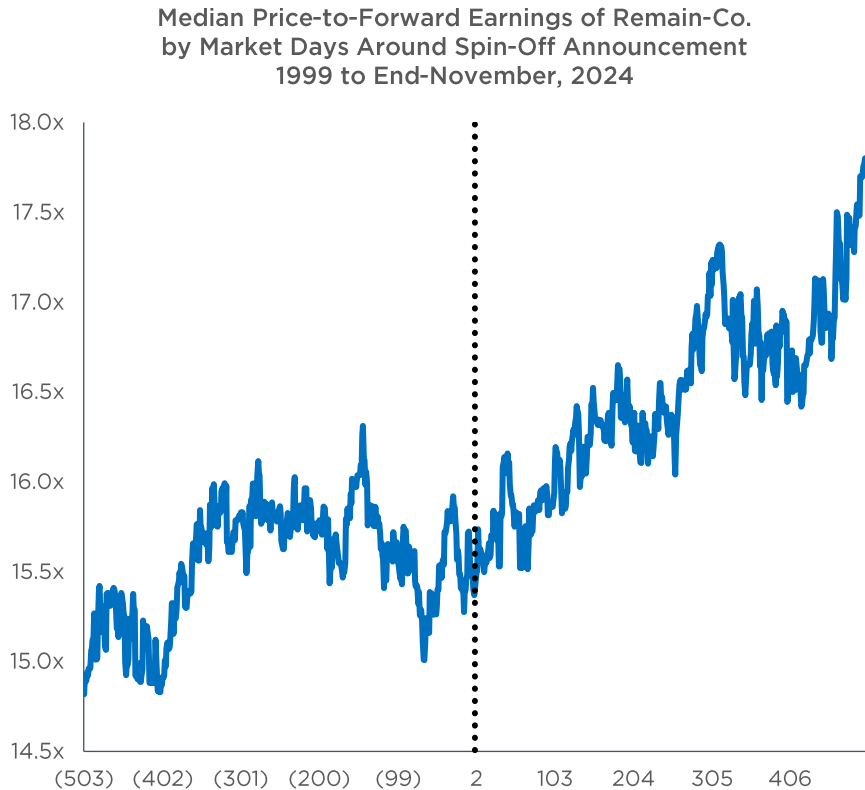
HIGH-QUALITY COMPANIES SHOULD NOT DO SPINOFFS

The highest quality remaining companies that engaged in spin-offs were by far the worst performing, lagging the market by 15% on average over the first year (left). **High-quality companies should not do spin-offs. When all but the highest quality companies spin off junk stocks, the spin-cos perform the best (right).**



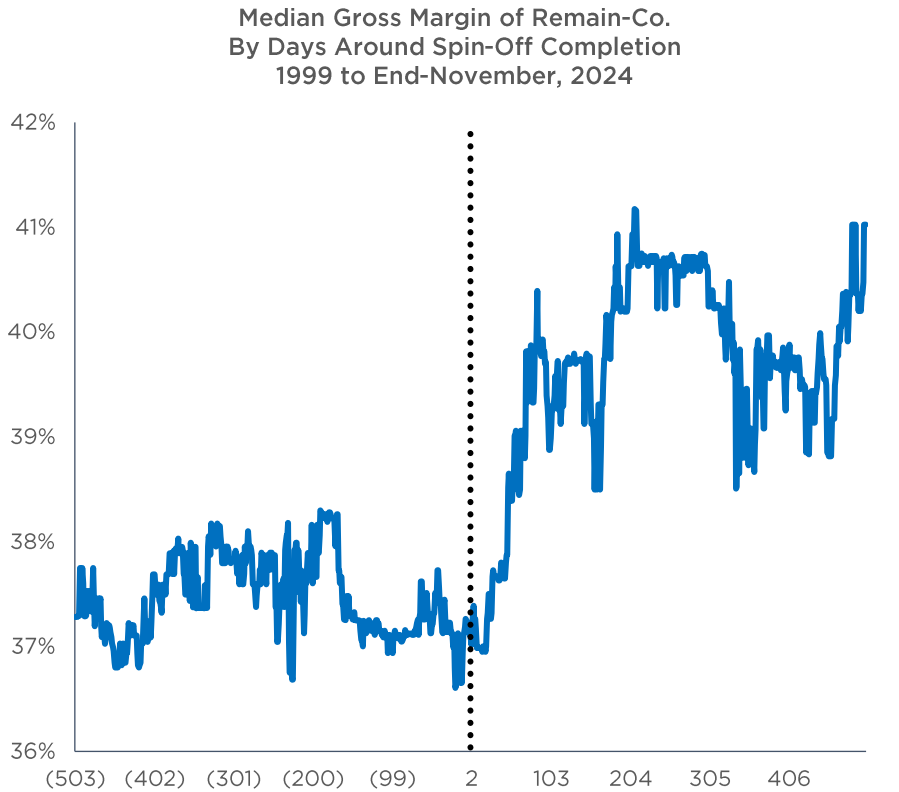
REMAIN-COS PE EXPANDS EXCEPT THE HIGHEST QUALITY COHORT

Remain-cos average two turns of multiple expansion on price-to-forward earnings over the subsequent two years post spin-off announcement (left). The highest quality quartile sees multiple contraction (right), while again, the other three quartiles of quality perform best.



GROSS MARGINS EXPAND FOR THE AVERAGE REMAIN CO POST SPIN

On average, the profitability of remain-cos expands post spin-completion by an average of 300bps in the subsequent six months (left). One year after the average completion of a spin-off, spin-co. and remain-co profitability converges, with the median and quartile gross margin percentages nearly identical (right).



Source: Trivariate Research

**Distribution of Gross Margin of Spin Co. & Remain-Co.
1 Year After Spin-Off
1999 to End-November, 2024**

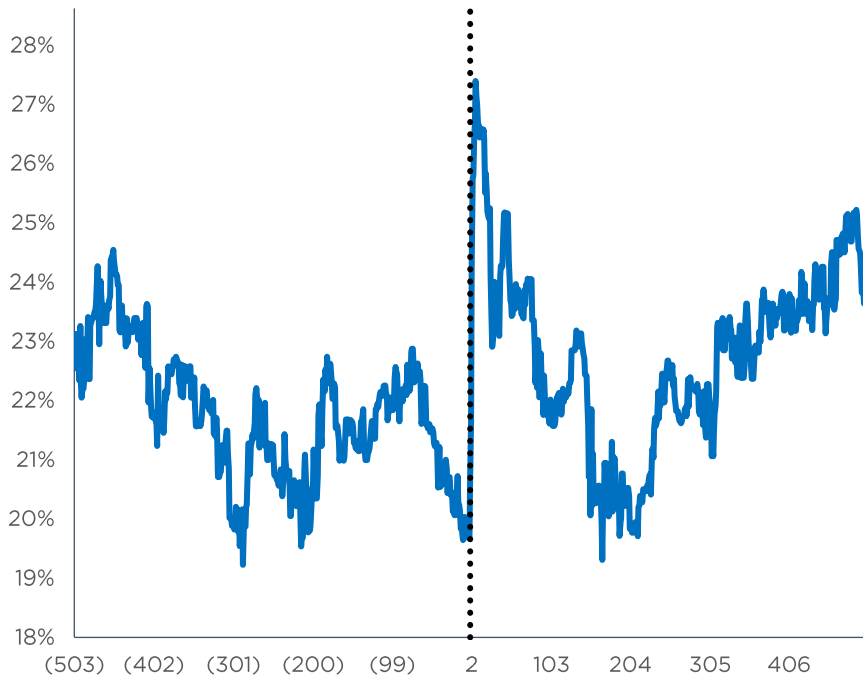
Percentile	Spin Company	Remaining Company
25 th	25%	25%
Median	39%	39%
75 th	58%	56%

Source: Trivariate Research

LEVERAGE OF REMAIN-COS AND SPIN-COS IS RELATIVELY SIMILAR

While data for spin-cos can lag, but market caps immediately update, it doesn't appear that six months following spin-off completion that remain-co's net debt is materially different (left). The net debt-to-market cap of spin-cos is similar for the average spin-co and remain-co (right), implying on average companies aren't materially changing the balance sheets of the remain-co through these transactions.

Median Net-Debt-to-Market Cap. of Remain-Co.
By Days Around Spin-Off Completion
1999 to End-November, 2024



Source: Trivariate Research

Distribution of Net Debt-to-Cap. of Spin-Co. & Remain-Co.
1 Year After Spin-Off
1999 to End-November, 2024

Percentile	Spin Company	Remaining Company
25 th	(2%)	5%
Median	21%	24%
75 th	65%	63%

Source: Trivariate Research

BOTH REMAIN-CO AND SPIN-CO PERFORMED WELL

GE and GE Vernova this past year have both been great stocks since the spin-off. BAX / EW, DLX / EFDS, HWM / ARNC, and MCD / CMG were examples where both the remain-co and spin-co performed well in the 12-month following the deal.

Best Performing Remain-Co and Spin-Offs by Average 1yr S&P500 Relative Returns, Remain-Co Mid-Cap or Larger, Spin-Co Small-Cap or Larger
As of End-November, 2024

Remain Co. Ticker	Remain Company	Spin Co. Ticker	Spin Company	Spin-Off Closing Date	Remain Co. Market Cap.	Spin Co. Market Cap.	Average 1yr S&P500 Relative Return	Remain Co. 1yr Total Return	Spin Co. 1yr Total Return
BAX	Baxter International	EW	Edwards Lifesciences	3/31/2000	18.21	0.79	108%	62%	79%
DLX	Deluxe Corporation	EFDS	eFunds Corporation	12/29/2000	1.83	0.42	94%	121%	30%
HWM	Howmet Aerospace	ARNC	Arconic Corporation	4/1/2020	5.75	0.75	89%	157%	232%
MCD	McDonald's Corporation	CMG	Chipotle Mexican Grill	10/5/2006	48.81	1.60	68%	44%	150%
REI	CenterPoint Energy	RRI	RRI Energy	9/30/2002	2.99	0.51	64%	29%	178%
SLE	Hillshire Brands Company	COH	Tapestry, Inc.	4/11/2001	16.59	1.09	64%	6%	112%
GE	General Electric Company	GEV	GE Vernova	4/2/2024	149.20	38.09	60%	30%	138%
EXPE	Expedia Group, Inc.	TRIP	Tripadvisor	12/20/2011	7.62	4.04	54%	128%	48%
EFX	Equifax Inc.	CEY	Certegy Inc.	7/7/2001	5.01	2.15	53%	16%	24%

Source: Trivariate Research

BOTH REMAIN-CO AND SPIN-CO PERFORMED POORLY

There have been no recent examples of both the remain-co and spin-co materially lagging (i.e. in the worst ten ever), a likely positive for management teams to engage in more spin-offs. WCOM / MCIT, IAC / VMEQ, COMS / PALM, VFC / KTB were examples where both the remain-co and spin-co performed poorly in the 12-month following the transaction. IAC, VFC, and EQT were all in the last six years.

Worst Performing Remain-Co and Spin-Offs by Average 1yr S&P500 Relative Returns, Remain-Co Mid-Cap or Larger, Spin-Co Small-Cap or Larger
As of End-November, 2024

Remain Co. Ticker	Remain Company	Spin Co. Ticker	Spin Company	Spin-Off Closing Date	Remain Co. Market Cap.	Spin Co. Market Cap.	Average 1yr S&P500 Relative Return	Remain Co. 1yr Total Return	Spin Co. 1yr Total Return
WCOM	Worldcom Group	MCIT	MCI Group	6/8/2001	51.55	2.09	(81%)	(86%)	(82%)
IAC	IAC Inc.	VMEQ	Vimeo, Inc.	5/24/2021	22.52	12.01	(64%)	(51%)	(81%)
COMS	3Com Corporation	PALM	Palm, Inc.	7/27/2000	22.65	20.07	(56%)	(62%)	(69%)
VFC	V.F. Corporation	KTB	Kontoor Brands, Inc.	5/22/2019	35.74	2.10	(50%)	(34%)	(62%)
EMC	Dell EMC	MCDT	McDATA Corporation	2/7/2001	154.18	3.84	(48%)	(77%)	(43%)
EQT	EQT Corporation	ETRN	Equitrans Midstream	11/12/2018	8.81	5.02	(48%)	(45%)	(36%)
OIS	Oil States International	CVEO	Civeo Corporation	5/28/2014	5.64	2.38	(47%)	(32%)	(48%)
LU	Nokia of America Corporation	AV	Avaya Inc.	10/2/2000	103.52	5.62	(47%)	(72%)	(51%)
RYN	Rayonier Inc.	RYAM	Rayonier Advanced	6/27/2014	6.14	1.56	(45%)	(23%)	(55%)
TIN	Temple-Inland, Inc.	FOR	Forestar Group Inc.	12/28/2007	3.18	2.40	(44%)	(62%)	(73%)

Source: Trivariate Research

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