

Spin City

*Corporate spinoffs can produce outsized returns—
but they aren't for the faint of heart*

BY JOHN E. DEYSHER

CORPORATE SPINOFFS, WHICH ROSE to prominence during the restructuring craze of the 1990s, have proved to be one of the most lucrative areas of investing—and plenty more are coming down the pike.

A spinoff occurs when a company distributes shares in a subsidiary to existing stockholders, usually in a tax-free transaction. The hope is that the market will value the two companies at a higher price than the parent alone commanded.

I periodically invest in spinoffs and recently pulled together data on more than 100 from the past five years, representing the bulk of spinoffs in that span.

My finding: The 80 spun-off companies that are still trading have posted annualized returns of 36.6%—far above the 0.1% of the Standard & Poor's 500 index and the 8.3% of the Russell 2000. The stocks of eight, however, were delisted because of bankruptcy and other issues—a clear reminder that the field, made up mostly of small and midsized companies, isn't without risks.

JOHN E. DEYSHER is portfolio manager of Pinnacle Value Fund, a mutual fund specializing in small stocks. Of the stocks in this story or table, he holds Delta Apparel.

More spinoffs are on tap this year as corporate boards and managers come under increased pressure from shareholders to boost performance. The past year's robust stock market and strengthening economy, meanwhile, are providing a favorable post-spinoff trading environment.

Among companies that already have announced spinoff plans: **Abbott Labs**, for its Hospira hospital-supply unit; **Motorola**, for its Freescale semiconductor unit; **Viad**, for MoneyGram International; **Allete**, for Adesa, an automotive-services unit; **Cablevision**, for a satellite-service unit and some cable-TV channels; and **Kimberly-Clark**, for selected paper and timber assets.

What should you look for in a new spinoff? Apply the same kind of analysis you would to any other securities, carefully reviewing the company's history and prospects. And consider holding off on buying until a few weeks after the company is spun off. The shares often trade down in this period as index funds and other institutions dump holdings. That can provide an attractive purchase price. Happy hunting. ■

(over please)

Going Their Own Way

► As a group, the spinoffs that occurred from 1999 through 2003 trounced the market averages. Deals from the past year did especially well, thanks to the market rally and a strong appetite among investors for new names. But performance varies widely from company to company: Twenty-six of the spinoffs since 1999—or about one in four—have produced losses.

Spinoff	Parent	Spin Date	Initial Price	Recent Price	Annual Return*	Spinoff	Parent	Spin Date	Initial Price	Recent Price	Annual Return*
Acuity	National Svc	11/01	\$12.50	\$24.85	34.8%	Levitt	BankAtlantic	12/03	\$16.00	\$26.10	63.0%
Adv Med Optics	Allergan	6/02	12.35	23.73	46.8	Litepoint Hosp	Columbia HCA	5/99	9.44	32.54	29.4
Ambassadors Gp	Ambassadors Intl	2/02	12.00	24.00	41.4	Lynch Interactive	Lynch	9/99	20.32	31.30	10.1
ANC Rental¹	AutoNation	6/00	6.50	0.01	-82.6	Marine Products	RPC	2/01	3.07	19.80	86.1
APW¹	Actuant	7/00	37.00	0.01	-97.6	McData	EMC	2/01	53.50	8.28	-45.2
Arch Chemicals	Olin	1/99	12.31	27.55	17.1	Medco Health	Merck	8/03	22.60	32.82	110.9
Avaya	Lucent	9/00	20.50	16.70	-5.9	MI Development	Magna Intl	8/03	17.65	30.00	70.0
Brilliant	Three Five Sys	9/03	8.00	8.40	5.0	Mindspeed	Conexant Sys	6/03	2.05	8.30	304.0
Brookfield Homes	Brookfield Prop	1/03	8.50	31.15	195.1	Mod-Pac	Astronics	3/03	6.00	8.00	33.0
Caesar Ent	Hilton Hotels	12/98	7.00	13.00	12.6	Momentum²	Peoplesoft	1/99	10.00	18.50	21.2
Cavco	Centex	6/03	12.70	37.60	371.4	Omnova	GenCorp	9/99	9.50	5.20	-12.8
Certegy	Equifax	6/01	24.00	34.63	14.5	Overhill Farms	Overhill	11/02	3.00	1.50	-39.0
Ceridian	Arbitron	3/01	17.00	20.25	6.0	Packaging Dyn	IVEX	7/02	7.00	12.40	40.0
Celera Genomics	Perkin-Elmer	4/99	9.00	15.25	11.4	Pactiv	Tenneco	10/99	12.19	21.28	13.5
Ceva	DSP Group	11/02	5.10	10.25	64.6	PalmSource	Palm One	10/03	28.40	22.77	-20.0
Cimarex	Helmerich & Payne	9/02	16.10	28.60	50.7	Piper Jaffray	US Bancorp	12/03	42.50	56.90	33.0
Circor	Watts Ind	10/99	12.00	24.00	17.1	Plains E&P	Plains Resources	12/02	9.20	17.58	71.5
Circle.com²	Snyder Comm	10/99	13.00	1.00	-77.9	PracticeWorks²	Infocure	2/01	9.50	22.00	36.5
Citadel Sec	CT Hldgs	5/02	1.00	6.25	176.8	Primal Solutions	Avery Comm	3/01	0.25	0.40	17.0
Coorstek	ACX Tech	12/99	18.50	26.00	8.4	Pulitzer	Pulitzer Pub	3/99	40.25	52.00	5.3
CP Rail	Canadian Pacific	8/01	22.25	24.83	4.5	Quantum Fuel	Impco Tech	7/02	5.10	9.83	47.1
CP Ships	Canadian Pacific	8/01	10.75	18.35	23.8	Ribapharm²	Valeant	4/02	10.00	6.25	-23.0
Crestline Capital	Host Marriott	12/98	14.50	34.00	-79.0	Rio Alto Res	Rio Alto Expl	8/02	0.44	0.73	37.2
Delta Apparel	Delta Woodside	6/00	4.50	20.00	49.7	RJ Reynolds	Nabisco	6/99	33.00	60.00	13.6
Dover Downs G&E	Dover Motorsports	3/02	11.00	10.23	-3.6	Rockwell Collins	Rockwell	6/01	21.10	31.84	16.5
Duck Head App²	Delta Woodside	6/00	2.75	4.75	64.4	Roxio	Adaptec	5/01	13.00	4.51	-30.6
Edwards Lifesci	Baxter Intl	3/00	15.25	31.90	20.8	SCS Transport	Yellow	9/02	14.50	21.30	29.2
eLoyalty	Tech Solutions	2/00	350.00	5.90	-63.1	SeraNova²	Intelligroup	7/00	10.63	2.00	-81.0
EnCana	Canadian Pacific	8/01	23.38	43.20	27.8	Sunshine PCS	Lynch Interactive	3/01	0.35	1.04	47.5
Energizer	Ralston Purina	3/00	22.00	46.92	21.4	Sybron Dental	Apogent	11/00	13.00	28.00	26.2
Enpro	Goodrich	5/02	8.45	19.15	57.5	Synavant²	IMS Health	8/00	12.50	3.00	-33.5
Evercel	Energy Res	3/99	3.13	0.51	-30.4	Teledyne Tech	Allegheny Teledyne	11/99	8.44	20.26	22.6
Flowers Foods	Flowers Ind	3/01	9.33	26.54	41.7	Tender Loving Care²	Staff Builders	10/99	0.10	1.00	68.8
Fairmont Hotel	Canadian Pacific	8/01	21.34	26.00	8.2	Texas Genco	CenterPoint Egy	12/02	8.00	36.30	252.7
Fording	Canadian Pacific	2/03	22.00	40.27	83.0	Three Rivers Bank²	US Bancorp	4/00	12.00	16.00	12.2
Genesis HealthCare	Genesis Hlth Ven	11/03	15.50	26.90	74.0	Tikcro Tech¹	Orckit Comm	6/00	15.00	0.40	-91.1
Gen-Probe	Chugai	9/02	6.50	37.10	219.4	Too	Limited Brands	8/99	14.00	19.70	7.7
Gentek¹	General Chemical	4/99	13.00	0.01	-82.9	Triad Hosp	Columbia HCA	5/99	9.00	33.20	31.3
Genzyme Surgical¹	Genzyme	6/99	8.00	7.00	-8.5	Varian Semi	Varian Assoc	3/99	8.00	39.70	38.7
Global Payments	National Data	1/01	15.00	44.66	42.2	Varian	Varian Assoc	3/99	13.00	38.80	25.0
Grant PrideCo	Weatherford	3/00	13.25	15.5	4.0	VelocityHSI¹	BRE Props	8/00	2.00	0.01	-99.2
Harbor Global	Pioneer Group	8/00	5.00	10.2	22.6	Ventiv Health	Snyder Comm	9/99	8.75	12.92	9.3
Hudson Highland	Monster WW	3/03	9.00	24.72	174.7	ViAlta	ESS Tech	8/01	1.40	0.40	-38.2
Huttig Building	Crane Co	12/99	5.00	5.05	0.2	Viasys	Thermo Electron	11/01	15.20	21.60	15.8
Imagistics	Pitney Bowes	11/01	15.50	45.11	59.1	Visteon	Ford Motor	6/00	18.19	10.20	-14.1
Imperial Pkg	First Union REIT	3/00	21.00	25.46	5.1	VoiceStream²	Western Wireless	5/99	20.84	90.00	100.7
Janus	Kansas City So	6/00	39.50	16.92	-20.5	Water Pik	Allegheny Teledyne	11/99	10.50	14.20	7.3
Jeffries	Investment Tech	4/99	11.31	38.32	28.9	Westwood Hldg	SWS Group	6/02	13.50	17.20	15.3
Key3 Media¹	Softbank	8/00	5.50	0.01	-95.7	Williams Comm¹	Williams Cos	9/99	23.00	0.01	-92.4
Lakes Ent	Grand Casino	1/99	9.50	26.00	21.4	Zimmer Hldg	Bristol-Myers	7/01	29.50	80.70	47.3
Lanier Worldwide²	Harris Corp	11/99	6.50	3.00	-47.5						

*Returns are annualized, except for deals done within past year. 1=Delisted 2=Acquired
Sources: Spin-Off Report; Pinnacle Value Fund; Bloomberg; Thomson Financial