# THE SPIN-OFF CALENDAR

CONTINUOUS COVERAGE OF NEWLY ANNOUNCED AND PENDING U.S. TAX-FREE SPIN-OFFS

# January 2012



All prices as of December 27, 2011, unless otherwise indicated

## HIGHLIGHTS

**Alexander & Baldwin (NYSE: ALEX) to Spin Off Matson Transportation and Logistics Business**
Matson's shipping and related businesses account for $1.5 billion in annual revenue and $104 million in operating profit. The parent will focus on its Hawaiian real estate and agribusiness, which are higher-margin operations than Matson.

**Covidien (NYSE: COV) to Spin Off Pharmaceuticals Business**
The spin-off entity accounted for about $2 billion of COV's FY2011 $11.6 billion in revenue. It is a leading manufacturer of generic drugs. The parent maintains the manufacturing operations for medical devices and supplies. The spin-off is a lower-margin business with differing sales channels and customer profiles.

**Entergy Corporation (NYSE: ETR) Plans to Spin Off Electric Transmission Business and Merge It with ITC Holdings Corporation (NYSE: ITC)**
ETR expects to divest its electric transmission operations into newly formed Mid South Transco LLC and distribute the entity to shareholders in a tax-free spin-off. Transco will then be merged with ITC. The transaction will result in ETR shareholders owning approximately 50.1% of pro forma ITC. ETR intends to retire debt upon completion of the transaction.

**Expedia Inc. (NASDAQ: EXPE) Completes Separation of TripAdvisor (NASDAQ: TRIP)**
TRIP began "regular way" trading on December 21, 2011. The transaction was preceded by a 1:2 reverse split of EXPE shares. TripAdvisor, which operates websites in 29 countries including China, offers travel advice, recommendations, and planning services. It is the most popular travel-related site on the Internet, according to independent research. Expedia's remaining sites, including expedia.com and hotels.com, provide airline, hotel, and other travel-related booking services for a fee.

**WPX Energy Inc. (NYSE: WPX) Begins "Regular Way" Trading Following Separation from The Williams Companies (NYSE: WMB)**
WMB holders received one share of WPX for every three shares of WMB held at the close of business on December 14, 2011. The separation allows management to focus on meeting growing demand in its separate businesses. WPX can base spending priorities on developing and producing oil or natural gas assets, while Williams can meet changing needs for US commodity processing and transportation as domestic gas production reaches record levels.


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# INDEX OF PENDING TAX-FREE SPIN-OFFS

**PAGE PARENT / SPIN-OFF**



**(_) New this issue; * New info./valuation; (wi) Trading when-issued; (rw) Trading regular way**

# THE SPIN-OFF CALENDAR

## DATE-ORDER SPIN-OFF CALENDAR

| Parent | Symbol | Mkt. Cap. (mn) | Dates of Importance: Announced | Dates of Importance: Distributed | Spin-Off | Symbol | Mkt. Cap. (mn) |
|---|---|---|---|---|---|---|---|
| General Growth | GGP | $14,000 | 2/24/2010 | 11/9/2010 | The Howard Hughes Corp. | HHC | $1,700 |
| Sun Healthcare Group | SUNH | $100 | 5/24/2010 | 11/15/2010 | Sabra Health Care REIT | SBRA | $450 |
| Motorola Solutions | MSI | $15,100 | 2/11/2010 | 1/4/2011 | Motorola Mobility | MMI | $11,600 |
| Northrop Grumman | NOC | $15,300 | 7/13/2010 | 3/31/2011 | Huntington Ingalls Industries | HII | $1,500 |
| Marathon Oil Corp. | MRO | $20,600 | 1/13/2011 | 6/30/2011 | Marathon Petroleum Corp. | MPC | $11,900 |
| Cablevision Systems | CVC | $4,040 | 11/18/2010 | 6/30/2011 | AMC Networks | AMCX | $2,670 |
| Beam Inc. | BEAM | $8,000 | 12/8/2010 | 9/30/2011 | Fortune Brands Home & Security | FBHS | $2,700 |
| IDT Corporation | IDT | $200 | 11/5/2010 | 10/28/2011 | Genie Energy Ltd. | GNE | $200 |
| NTELOS Holdings Corp. | NTLS | $430 | 12/8/2010 | 10/31/2011 | Lumos Networks Corp. | LMOS | $300 |
| ITT Corporation | ITT | $1,790 | 1/12/2011 | 10/31/2011 | Xylem Inc. | XYL | $4,700 |
| ITT Corporation | ITT | $1,790 | 1/12/2011 | 10/31/2011 | Exelis Inc. | XLS | $1,700 |
| Marriott International | MAR | $9,800 | 2/14/2011 | 11/21/2011 | Marriott Vacations Worldwide | VAC | $600 |
| Expedia, Inc. | EXPE | $3,500 | 4/7/2011 | 12/21/2011 | TripAdvisor | TRIP | $3,400 |
| The Williams Cos. | WMB | $19,500 | 10/18/2011 | 1/3/2012 | WPX Energy Inc. | WPX | $3,500 |
| General Growth | GGP | $14,000 | 8/1/2011 | 1/12/2012 | Rouse Properties | | |
| Ralcorp Holdings | RAH | $4,700 | 7/14/2011 | 1Q 2012 | Post Holdings | | |
| Sara Lee Corporation | SLE | $11,200 | 1/28/2011 | 1Q 2012 | International Beverage Business | | |
| ConocoPhillips | COP | $96,800 | 7/14/2011 | 2Q 2012 | Phillips 66 | | |
| L-3 Communications | LLL | $6,700 | 7/28/2011 | 1H 2012 | Engility | | |
| MeadWestvaco Corporation | MWV | $5,100 | 11/17/2011 | 1H 2012 | Consumer & Office Products Business | | |
| Kraft Foods | KFT | $66,000 | 8/4/2011 | 2012 | North American Groceries | | |
| McGraw-Hill Companies | MHP | $13,200 | 9/12/2011 | 2012 | McGraw-Hill Education | | |
| Tyco International | TYC | $21,600 | 9/19/2011 | 2012 | ADT North American Residential | | |
| Tyco International | TYC | $21,600 | 9/19/2011 | 2012 | Flow Control | | |
| Abbott Laboratories | ABT | $87,600 | 10/19/2011 | 2012 | Research-Based Pharmaceuticals | | |
| Alexander & Baldwin | ALEX | $1,700 | 12/1/2011 | 2H 2012 | Matson | | |
| Entergy | ETR | $12,900 | 12/5/2011 | 2013 | Electric Transmission Business | | |
| Covidien plc | COV | $21,700 | 12/15/2011 | 2013 | Pharmaceuticals Business | | |
| AMR Corporation | AMR | $100 | 7/20/2011 | N/A | AMR Eagle Holding Corp. | | |

Source: Thomson One, Bloomberg, and Institutional Research Group

## Abbott Laboratories / Research-Based Pharmaceuticals

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Abbott Laboratories*<br>NYSE: ABT<br>Price: $56.23<br>Dividend / Yield: $1.92/3.4%<br>52-Wk. Rng.: $45.07 - $56.34<br>Market Cap.: $87.6 B<br>2011E Financial Performance (Post-Spin Parent)<br>Revenue: $22 B | *Research-Based Pharmaceuticals*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>2011E Financial Perf. (Pro Forma)<br>Revenue: $18 B | Spin-Off Announcement: 10/19/2011<br>Spin-Off Date: 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On October 19, 2011, Abbott Laboratories (NYSE: ABT) announced its plan to separate into two distinct publicly traded companies. The spin company will control ABT's current portfolio of proprietary pharmaceuticals and biologics and will be named later. The parent, a diversified medical products company, will retain the Abbott name. Miles White, the current chairman and CEO, will remain in his roles at the parent company following the transaction, while Richard Gonzalez will transition from his role as current vice president of Global Pharmaceuticals to chairman and CEO of the research-based pharmaceutical company. The spin-off will be conducted via a tax-free distribution to shareholders, which is expected to be completed in 2012. Capital and liability allocations are yet to be finalized. The spin-off will require SEC approval and an affirmative IRS ruling. It is expected that each entity will initially pay a dividend, which in sum will be equal to ABT's current $1.92 per share annual payment.

The research-based pharmaceutical company, which is expected to generate 2011 revenue of $18 billion, has a portfolio of leading medicines across a wide array of diseases and over 20 drugs in either Phase II or Phase III development in its pipeline. Research-based companies are historically capital intensive, and a separation should allow the spun-off entity to fund its research through its current portfolio of products, while sales will be mostly focused on developed markets. In 2010, ABT's pharmaceutical segment generated revenue of $19.9 billion and EBITDA of $7.4 billion, representing a 37% margin. ABT appears to trade at a modest premium on a price/sales and price/earnings basis to pharmaceutical companies Forest Laboratories (NYSE: FRX) and Gilead Sciences (NASDAQ: GILD).

The parent company is expected to generate revenue of $22 billion in 2011 from its established pharmaceuticals (branded generics outside of the US), nutritional products, and medical devices. Following the separation, ABT will have a greater international focus, with approximately 40% of sales coming from emerging markets. If investors were to compare the post-spin ABT to Mylan Inc. (NYSE: MYL) and Teva Pharmaceutical (NASDAQ: TEVA), it would again appear that ABT trades at a premium to this peer group.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Capital Research Global Investors | 4.1% | **6** | JP Morgan Chase & Co. | 1.7% |
| **2** | State Street Corporation | 3.8% | **7** | Northern Trust Corp. | 1.5% |
| **3** | The Vanguard Group | 3.8% | **8** | Massachusetts Financial Services Co. | 1.5% |
| **4** | BlackRock Institutional Trust Co. | 2.4% | **9** | Wellington Management Co, LLC | 1.3% |
| **5** | Bank of New York Mellon Corp. | 2.0% | **10** | Bank of America Corporation | 1.0% |

## Alexander & Baldwin, Inc. / Matson

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Alexander & Baldwin, Inc.*<br>NYSE: ALEX<br>Price: $41.62<br>Dividend / Yield: $1.26/3.0%<br>52-Wk. Rng.: $33.09 - $55.50<br>Market Cap.: $1.7 B<br>Financial Performance (Pro forma TTM)<br>Revenue: $371 M<br>Net Income: $102 M | *Matson*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>Financial Performance (Pro forma TTM)<br>Revenue: $1.5 B<br>Net Income: $104 M | Spin-Off Announcement: 12/1/2011<br>Spin-Off Date: 2H 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On December 1, 2011, Alexander & Baldwin, Inc. announced that its Board of Directors had approved separating the company into two independent, publicly traded companies in a tax-free spin-off transaction. The company's real estate operations and agribusiness will retain the Alexander & Baldwin, Inc. name (A&B), while Matson will consist of the company's ocean transportation business. Completion of the transaction will require receipt of a favorable IRS ruling and tax opinion, filing and effective declaration of ALEX's Form 10 by the SEC, and final approval by the Board of Directors. Management expects the spin-off to be completed in 2H 2012. Current ALEX CEO Stanley M. Kuriyama will serve as chairman and CEO of the new Alexander & Baldwin, while Matson's current president will serve as Matson's president and CEO upon separation.

Post spin, the parent company will focus on property development and management, which currently includes 88,000 acres of land, primarily in Hawaii, and 7.9 million square feet of commercial properties in Hawaii and on the US Mainland. Additionally, ALEX's agribusiness consists of 36,000 acres of productive agriculture. As of September 30, 2011, real estate operations and agribusiness (the new A&B business) reported revenue of $371 million and operating profit of $102 million for the trailing twelve months. Post spin ALEX will carry approximately $342 million in debt.

Matson's operations include 17 Jones Act vessels and 47,000 company-owned containers and equipment, along with dedicated terminal facilities and a top US logistics company, among other businesses. Over the same trailing twelve months, Matson reported revenue of $1.5 billion and operating profit of $104 million. The company is expected to carry approximately $228 million in debt post separation.

The separation should more clearly define the new businesses and attract a more focused shareholder base than is possible with the current corporate structure. Further, if one were to look at the real estate assets, a separation from the transportation business *may* enable management to transform this business into a REIT, providing a tax shield and possibly resulting in an increased valuation.

The shipping business may be seeing pressure. ALEX has already shuttered its China-Long Beach Express route CLX2, citing high fuel costs, downward rate pressure, and overcapacity on transpacific routes. If one were to look at the difficult environment and slim margins for the shipping business, following the separation Matson may see a contraction in its valuation multiple, as current ALEX shares trade at a slight premium to other shipping companies.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Pershing Square Capital Management, L.P. | 8.5% | **6** | Third Avenue Management, LLC | 3.0% |
| **2** | Dimensional Fund Advisors, L.P. | 7.1% | **7** | Pacific Heights Asset Management, LLC | 2.9% |
| **3** | London Company of Virginia | 4.9% | **8** | BlackRock Fund Advisors | 2.8% |
| **4** | Vanguard Group, Inc. | 4.6% | **9** | Ontario Teachers' Pension Plan Board | 2.4% |
| **5** | PRIMECAP Management Company | 3.4% | **10** | BlackRock Institutional Trust Company | 2.3% |

## AMR Corporation / AMR Eagle Holding Corporation

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *AMR Corporation*<br>NYSE: AMR<br>Price: $0.56<br>Dividend / Yield: N/A<br>52-Wk. Rng.: $0.20 - $8.98<br>Market Cap.: $187 M<br>2010 Financial Performance (Cons.)<br>Revenue: $22.2 B<br>Net Income: $1.4 B | *AMR Eagle Holding Corp.*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>2010 Financial Performance (Pro forma)<br>Revenue: $1.2 B<br>Net Income: $24.7 M | Spin-Off Announcement: 7/20/2011<br>Spin-Off Date: N/A<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: Amended 10/6/2011<br>Published Report: 11/7/2011 |

**DESCRIPTION**

On November 29, 2011, AMR Corporation (NYSE: AMR) announced it had voluntarily filed for Chapter 11 bankruptcy protection to reorganize its cost and debt structures in an attempt to improve competitiveness. The company also announced that CEO Gerald Arpey will be succeeded by Thomas Horton.

As detailed in the initial AMR Corporation *Spin-Off Report*, dated November 7, 2011, the inability of management to reach an agreement with the unions, combined with the company's significant debt and pension obligations, presented significant risks to solvency. The failure to reach a new accord with labor likely led to the reorganization filing. Industry dynamics have shifted in recent years as competitors have emerged from bankruptcy with improved cost structures, while low-cost carriers have expanded and mergers have created economies of scale. AMR's previous lack of reorganization placed it at a competitive disadvantage versus peers.

In AMR's most recent quarterly results, the company reported a net loss of $162 million. The airline planned to reduce fourth quarter capacity by 3% to improve the cost structure. AMR had net debt of $12.6 billion, which does not include its underfunded pension plan. As of December 30, 2010, AMR's pension plan was underfunded by $5.2 billion. The bankruptcy filing likely positions AMR to restructure its debt and pension obligations, while lowering its labor costs as unions are forced to make concessions in bankruptcy. If AMR Corp. is able to successfully emerge from bankruptcy, it may position the company to more effectively compete for business. Given the filing, the spin-off of American Eagle Holding Corp. appears to be on hold until further notice.

Please refer to our published *Spin-Off Report* on AMR Corp., dated November 7, 2011, for additional information.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | PRIMECAP Management Company | 12.3% | **6** | BlackRock Institutional Trust Company | 2.2% |
| **2** | ICC Capital Management Inc. | 7.5% | **7** | State Street Corporation | 1.3% |
| **3** | Capital World Investors | 7.4% | **8** | Appaloosa Management | 1.3% |
| **4** | Vanguard Group, Inc. | 4.7% | **9** | Morgan Stanley | 1.3% |
| **5** | Marathon Asset Management | 3.6% | **10** | PAR Capital Management | 1.3% |

## ConocoPhillips / Phillips 66

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *ConocoPhillips*<br>NYSE: COP<br>Price: $72.94<br>Dividend / Yield: $2.64 / 3.7%<br>52-Wk. Rng.: $58.65 - $81.80<br>Market Cap.: $96.9 B<br><u>2010 Financial Performance (Cons.)</u><br>Revenue: $189.4 B<br>Net Income: $11.4 B | *Phillips 66*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br><u>2010 Financial Performance (Historical)</u><br>Revenue: $138.4 B<br>Op. Income: $192 M | Spin-Off Announcement: 7/14/2011<br>Spin-Off Date: May 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: 11/16/2011<br>Published Report: N/A |

**DESCRIPTION**

On July 14, 2011, ConocoPhillips announced that its Board of Directors had approved the spin-off of its refining and marketing business via a tax-free distribution to shareholders. Chairman and CEO Jim Mulva will lead the separation efforts. Upon completion of the spin-off, Mr. Mulva intends to retire. Capital and liability allocations are yet to be finalized. The spin-off, to be called Phillips 66, will require SEC approval and an affirmative IRS ruling. The transaction is expected to be completed in May 2012.

COP's refining and marketing operations include 12 refineries in the US and refining plants in the United Kingdom, Ireland, Germany, and Malaysia. It is the largest US refiner and the fourth largest (non-government-owned) global refiner. At the end of 2010, its worldwide crude oil processing capacity totaled 2.4 million barrels per day (including 2 million barrels in the US). Over the last three years, COP averaged nearly 2.3 million barrels processed per day. In 2010, capacity utilization fell to 81% (from a near-term peak of 94% in 2007). The E&P operations comprised 8.3 billion barrels of oil equivalent (bboe) at year-end 2010. Average production in 2010 totaled about 1.75 million barrels of oil equivalent per day, down modestly from 2009, as COP focused on liquids production and slowed development of North American natural gas basins.

The two separate companies should be easier for investors to value. The capital-intensive refinery business has been under pressure in recent years due to economic weakness, which resulted in reduced throughput and lower spreads. The refining and marketing business will be able to focus capital investment on refinery upgrades, while the E&P business can seek out ways to increase proved reserves (although management has indicated organic growth is more likely than growth through acquisition).

The proposed spin-off has the potential to unlock additional value, because the valuation of these businesses, as separate entities, could be greater than COP's current valuation. Management has focused on lifting shareholder value through share repurchases, buying back about $4 billion in shares in 2010 at an average price of $60.47, or 7.9x 2010 EPS. The separation is an additional effort to increase shareholder value. The company has $11 billion left in the current buyback program and intends to aggressively repurchase stock.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Capital Research Global Investors | 4.5% | **6** | Berkshire Hathaway Inc. | 2.1% |
| **2** | State Street Global Advisors | 4.1% | **7** | Barrow, Hanley, Mewhinney & Strauss | 1.5% |
| **3** | Vanguard Group | 4.1% | **8** | Waddell & Reed Investment Management | 1.2% |
| **4** | BlackRock Institutional Trust Company | 3.7% | **9** | Columbia Management Investment Advisers | 1.0% |
| **5** | Capital World Investors | 2.1% | **10** | Wellington Management Company | 1.0% |

## Covidien / Pharmaceuticals Business

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Covidien plc*<br>NYSE: COV<br>Price: $45.84<br>Dividend / Yield: $0.90 / 2.0%<br>52-Wk. Rng.: $41.35 - $57.65<br>Market Cap.: $22.1 B<br>FY2011 Financial Performance (Cons.)<br>Revenue: $11.6 B<br>Net Income: $1.9 B | *Pharmaceuticals Business*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>FY2011 Financial Performance (Historical)<br>Revenue: $2 B | Spin-Off Announcement: 12/15/2011<br>Spin-Off Date: 2013<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On December 15, 2011, Covidien plc (NYSE: COV) announced plans to separate into two independent publicly traded companies. The pharmaceuticals business accounts for about $2 billion of COV's $11.6 billion in annual sales. The spin company is a leading manufacturer of generic drugs in the US, including acetaminophen. The parent, a diversified medical products and supplies company, was spun off from Tyco International (NYSE: TYC) in 2007. Based in Dublin, Ireland, the parent company sells a wide variety of vascular, respiratory, operating room monitoring, and nursing care products. About 80% of the parent's revenue (post separation) is generated from sales of medical devices.

The spin-off is expected be conducted via a tax-free distribution to shareholders. From the December 2011 announcement, the process could take up to 18 months to be completed. Capital and liability allocations are yet to be finalized. The spin-off will require regulatory approval, an effective Form 10 filing with the SEC, an affirmative IRS ruling, and final approval from the Board of Directors.

As reasons for the separation, COV management cites differing business models, sales channels, customer profiles, and regulatory approval processes for the two businesses. The pharmaceuticals business may be better able to focus on its product pipeline and international expansion following the transaction. Compared to other generic drug manufacturers, COV trades at a similar price/sales multiple and at a slightly elevated price/future consensus earnings multiple. COV's medical devices business generates a significantly higher operating margin than the pharmaceuticals segment. One might expect the parent to trade at a higher multiple following the transaction, while the spin-off entity may generate a slightly lower multiple.

Notably, COV outperformed the market in both the first and second years of its spin-off from TYCO. In the first year following the transaction, COV's share price was up 7% compared to a nearly 11% decline for the S&P 500. In FY2008, COV's sales increased more than 11%. While COV experienced margin declination as a stand-alone, the weakness is likely explained both by its costs as an independent company and by the timing of the spin-off, which took place as the economy entered a recessionary period. According to *The Spin-Off Report* data, the operating margin declined from almost 23% pre-spin to slightly more than 20% in the two years following the transaction.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | FMR LLC | 6.0% | **6** | Wellington Management Company | 3.4% |
| **2** | Vanguard Group | 3.9% | **7** | BlackRock Institutional Trust | 2.5% |
| **3** | JP Morgan Chase | 3.9% | **8** | Janus Capital Management | 2.2% |
| **4** | State Street | 3.8% | **9** | Thornburg Investment Management | 1.9% |
| **5** | T. Rowe Price | 3.4% | **10** | Bank of New York Mellon | 1.9% |

## Entergy / Electric Transmission Business

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Entergy Corporation*<br>NYSE: ETR<br>Price: $73.59<br>Dividend / Yield: $3.32 / 4.6%<br>52-Wk. Rng.: $57.60 - $74.50<br>Market Cap.: $13.0 B<br><u>2010 Financial Performance (Cons.)</u><br>Revenue: $11.5 B<br>Net Income: $1.3 B | *Electric Transmission Business*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br><u>2011 Financial Performance (Historical)</u><br>Net Assets: $3.2 B | Spin-Off Announcement: 12/5/2011<br>Spin-Off Date: 2013<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from FERC, ITC shareholders, SEC, IRS, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On December 5, 2011, Entergy Corporation (NYSE: ETR) announced plans to separate its electric transmission business and merge the operations with independent electric transmission company ITC Holdings Corporation (NYSE: ITC). ETR expects to divest its electric transmission operations into newly formed Mid South Transco LLC and distribute the entity to shareholders in a tax-free spin-off. Transco will then be merged with ITC in an all-stock Reverse Morris Trust transaction. ITC plans a $700 million recapitalization prior to the merger. The transactions will result in Entergy shareholders owning 50.1% of the shares of pro forma ITC, and ITC shareholders owning the remaining 49.9% of the company. The transaction is expected to close in 2013. The transactions require approval by retail regulators, the Federal Energy Regulatory Commission (FERC), and ITC shareholders, as well as an IRS private letter ruling.

Entergy expects to receive $1.775 billion in proceeds from debt that will be assumed by ITC and issued as part of the transaction. ETR intends to use the cash to retire debt. As of September 30, 2011, ETR had net debt of nearly $11.5 billion. The transaction will enable ETR to reduce its debt level and focus new investment on its coal, gas, and hydroelectric power generation facilities. Entergy owns and operates power plants with approximately 30,000 megawatts of electric generating capacity, and it is the second-largest nuclear generator in the United States. The rate base for pro forma ITC is expected to be about $7.1 billion by year-end 2013. The transaction is expected to be immediately value accretive to ITC shareholders. The merged entity will focus on required new investment in electric transmission infrastructure.

ETR previously planned to spin off its nuclear operations into a newly formed company to be called Enexus Energy, but faced stiff resistance from state regulators. The planned spin-off never occurred, because state regulators in New York and Vermont opposed the transfer of six nuclear plants to Enexus as the long-term financial stability of the company was called into question. The current spin-off likely will not face the same intense regulatory and environmental scrutiny. Additionally, the debt load being assigned to the newly formed company appears to be within ITC's ability to handle.

Following the transaction, ITC will have over 30,000 miles of electric transmission lines, including the almost 16,000 miles contributed by ETR. ITC's geographic footprint will be significantly expanded, as its current Great Plains/Midwest focus will now include Gulf Coast assets. A regional headquarters will be established in Jackson, Mississippi.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | T. Rowe Price Associates | 7.2% | **6** | Barrow, Hanley, Mewhinney & Strauss | 3.6% |
| **2** | Franklin Resources | 6.6% | **7** | BlackRock Institutional Trust | 3.0% |
| **3** | State Street | 5.0% | **8** | BlackRock Fund Advisors | 2.5% |
| **4** | Evercore Trust Company | 4.3% | **9** | Pzena Investment Management | 1.9% |
| **5** | Vanguard Group | 4.2% | **10** | First Eagle Investment Management | 1.8% |

# Expedia, Inc. / TripAdvisor

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Expedia, Inc.*<br>NASDAQ: EXPE<br>Price: $30.07<br>Dividend / Yield: $1.12 / 4.0%<br>52-Wk. Rng.: $27.28 - $65.78<br>Market Cap.: $4.4 B<br>2010 Financial Performance (Cons.)<br>Revenue: $3.3 B<br>OIBA: $831 M | *TripAdvisor*<br>NASDAQ: TRIP<br>Price: $25.94<br>Dividend / Yield: N/A<br>52-Wk. Rng.: $23.99 - $30.62<br>Market Cap.: $3.2 B<br>2010 Fin. Perf. (TripAdvisor Segment)<br>Revenue (ex. inter-segment): $314 M<br>OIBA (ex. Corp. and Elim.): $260 M | Spin-Off Announcement: 4/7/2011<br>Spin-Off Date: 12/21/2011<br>Tax Status: Tax-free<br>Spin-Off Ratio: 1:1<br>Prerequisites: Received approval from shareholders, SEC, IRS, and Board of Directors<br>Form S-4: 7/27/2011<br>Published Report: 11/7/2011<br>FLASH: 12/7/2011 |

## DESCRIPTION

TripAdvisor Inc. (NASDAQ: TRIP) began "regular way" trading on the Nasdaq on December 21, 2011, following the completion of its spin-off from Expedia, Inc. (NASDAQ: EXPE). The transaction was preceded by a 1:2 reverse split of EXPE shares. TripAdvisor, which operates websites in 29 countries including China, offers travel advice, recommendations, and planning services. It is the most popular travel-related site on the Internet, according to independent research. Expedia's remaining sites, including expedia.com and hotels.com, provide airline, hotel, and other travel-related booking services for a fee. Barry Diller is chairman of the Board and senior executive of EXPE and holds 61% of the company's voting rights, which include a proxy to vote Liberty Interactive Inc.'s (NASDAQ: LINTA) 29% stake.

The separation appeared to be an effort to unlock shareholder value, and indeed, the fast-growth, cash-flow-generating TripAdvisor is generating a much higher valuation multiple as a stand-alone business in the early days post separation. Nevertheless, investors might be cautious about purchasing the spin-off. The two businesses were synergistic, with TripAdvisor feeding traffic to EXPE. A visitor to TRIP can explore destinations and then book the vacation on EXPE. The much smaller TRIP will be saddled with much higher G&A costs as a stand-alone business, which are likely to pull down operating margins post separation, while EXPE will likely have higher sales and marketing costs, both because it will compensate the independent TripAdvisor for drawing traffic to its site and because of its need to find new ways to reach Internet audiences. Of particular concern to EXPE may be the recent entry of Google Inc. (NASDAQ: GOOG) into the travel marketplace with the August 2011 launch of Google Flight Search service. The Internet behemoth could also eventually seek to challenge TripAdvisor by aggregating hotel and restaurant reviews.

Given the competitive threats and higher costs associated with the split, *The Spin-Off Report* did not recommend the stock for purchase prior to the transaction, and neither piece is recommended currently. One could reach fair value estimates of $27 per share for TRIP and $33 per share for EXPE (see *The Spin-Off Report* dated November 7, 2011, and FLASH dated December 7, 2011, for the valuation methodology). However, one might note that according to industry data tourism spending is expected to rise at a considerable pace over the next five years, and EXPE and TRIP could be prime beneficiaries of increased leisure travel. For investors who believe that Expedia and TripAdvisor have built strong customer loyalty and can successfully push back against the oncoming competitive threats, the stocks could be considered for purchase. Ultimately, however, for a longer-term investor, higher administrative costs in the near term resulting from the separation into two publicly traded companies and slower growth over the next several years due to the maturing of the online travel marketplace could result in minimal gains in the stocks post spin-off.

## PARENT TOP 10 SHAREHOLDERS

| | | | | | |
|---|---|---|---|---|---|
| 1 | Barry Diller | 28.4% | 6 | BlackRock Institutional Trust Company | 2.6% |
| 2 | Fidelity Management & Research | 7.0% | 7 | JP Morgan Asset Management | 2.1% |
| 3 | T. Rowe Price Associates | 4.2% | 8 | ClearBridge Advisors | 1.8% |
| 4 | Vanguard Group | 3.8% | 9 | Calamos Advisors LLC | 1.7% |
| 5 | State Street Global Advisors | 2.9% | 10 | Columbia Wanger Asset Management | 1.6% |

## General Growth Properties Inc. / Rouse Properties Inc.

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *General Growth Properties Inc.*<br>NYSE: GGP<br>Price: $14.97<br>Dividend / Yield: $0.40 / 2.7%<br>52-Wk. Rng.: $10.68 - $17.43<br>Market Cap.: $14.0 B<br>FY2010 Financial Performance (Cons.)<br>Revenue: $2.8 B<br>Core NOI: $2.2 B<br>Core FFO: $901 M | *Rouse Properties Inc.*<br>NYSE: RSE<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>Financial Perf.<br>About 7% of GGP's NOI | Spin-Off Announcement: 8/1/2011<br>Spin-Off Date: 1/12/2012<br>Tax Status: Taxable<br>Spin-Off Ratio: 1:26.66<br>Prerequisites: Approval from SEC<br>Form 10: Amended 12/20/2011<br>Published Report: 9/28/2011<br>FLASH: 12/20/2011 |

**DESCRIPTION**

On December 20, 2011, General Growth Properties (NYSE: GGP) announced that its Board of Directors had approved the spin-off of Rouse Properties. Rouse is expected to trade on the NYSE under the ticker "RSE" following the separation. Shares of Rouse will be distributed via a pro rata taxable dividend after the bell on January 12, 2012, to GGP shareholders of record as of the close of business on December 30, 2011. GGP shareholders will receive one share of RSE for every 26.66 shares of GGP. The "when issued" market for RSE stock began trading on December 28, 2011, with "regular way trading" expected to commence on January 13, 2012. The SEC still must declare effective the spin-off companies' Registration Statement to conclude the regulatory review.

The Rouse portfolio comprises 21.1 million square feet, including malls in or near San Francisco, CA; Las Vegas, NV; and Dallas, TX. Rouse properties are currently 87.7% leased and account for about 7% of GGP's net operating income (NOI). Spinning off these entities will enable GGP to focus on its premier mall portfolio and allow Rouse to consider efforts to enhance value through various means that may include redevelopment. Management intends for the special dividend to satisfy a portion of its REIT taxable income distribution requirement.

GGP emerged from bankruptcy in November 2010. As part of the reorganization plan, it spun off The Howard Hughes Corp. (NYSE: HHC), a developer of Master Planned Communities and mixed-use real estate, into a separately traded company. Since emerging from bankruptcy, GGP has focused on strengthening its balance sheet and streamlining its portfolio. The spin-off seems to be a step in that direction, as percentage leased and rental rates appear lower in the Rouse properties. Rouse may consider redeveloping some of these properties to maximize cash flow generation. In previous years, GGP might have considered selling off these properties, but the market for malls is reportedly less buoyant than in the past. Given this circumstance, the spin-off was a clear choice when seeking to right-size the asset base.

Please refer to our published *Spin-Off Report* on General Growth Properties, dated September 28, 2011, for additional information and our FLASH dated December 20, 2011, for our updated valuation methodology.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Brookfield Asset Management | 36.2% | **6** | Morgan Stanley | 3.3% |
| **2** | Pershing Square Capital Management | 7.4% | **7** | Texas Teachers Retirement System | 2.6% |
| **3** | Blackstone Group | 5.1% | **8** | Citigroup | 1.7% |
| **4** | Cohen & Steers Capital Management | 3.5% | **9** | ING Clarion | 1.7% |
| **5** | Vanguard Group | 3.4% | **10** | SG Americas Securities | 1.3% |

## Kraft Foods Inc. / North American Groceries

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Kraft Foods Inc.*<br>NYSE: KFT<br>Price: $37.42<br>Dividend / Yield: $1.16 / 3.1%<br>52-Wk. Rng.: $30.21 - $37.93<br>Market Cap.: $66.1 B<br>2010 Financial Performance<br>Revenue: $49.2 B<br>Net income: $4.1 B | *North American Groceries*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>2011E Financial Performance<br>Revenue: $16 B | Spin-Off Announcement: 8/4/2011<br>Spin-Off Date: 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On August 4, 2011, Kraft Foods, Inc. (NYSE: KFT) announced that its Board of Directors had approved the spin-off of its North American grocery business via a tax-free distribution to shareholders, which is expected to be completed by the end of 2012. The separation will require SEC approval and an affirmative IRS ruling. The spin-off company, which generates about $16 billion in annual revenue, includes US beverages, cheese, convenient meals and grocery segments, as well as Canadian non-snack categories and food service. Among the spin-off company's well-known brands are Oscar Mayer, Maxwell House, Capri Sun, Jell-O, and Kraft macaroni and cheese. The entity is expected to generate strong free cash flow and relatively high margins.

Post spin, the parent company will focus on the snack division as well as expansion into developing markets. Leading brands include Oreo, Cadbury, Trident, Jacobs coffee, and Tang. This entity generates annual revenue of about $33 billion, with 42% coming from developing markets.

The separation will enable investors to focus on either a faster-growth snacks business with greater developing market exposure or a high-margin, cash-flow-generating North American business. KFT currently pays an annual dividend of $1.16 per share (yield of 3.1%). It might be reasonable to conclude that the spin-off company will carry a greater dividend yield post separation, while the parent will have to make decisions post spin on whether to maintain a healthy dividend or focus on increased spending for new market penetration.

The stock trades closely with other leading food producers, despite the higher three-year EPS growth forecast by analysts. The faster growth is largely owing to developing market expansion. In 1H 2011 Kraft's developing market organic sales increased nearly 12% year over year to $6.8 billion. North American organic sales rose a slower 3% to about $12 billion, with increased pricing more than offsetting a decline in volume/product mix.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| 1 | Capital Research Global Investors | 6.3% | 6 | BlackRock Institutional Trust Company | 2.3% |
| 2 | Berkshire Hathaway Inc. | 5.6% | 7 | Wellington Management Company LLP | 2.2% |
| 3 | State Street Corporation | 4.9% | 8 | Franklin Resources Inc. | 1.6% |
| 4 | Capital World Investors | 4.1% | 9 | Bank of New York Mellon Corporation | 1.6% |
| 5 | Vanguard Group Inc. | 3.7% | 10 | Invesco Ltd. | 1.4% |

## L-3 Communications Holdings / Engility

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *L-3 Communications Holdings*<br>NYSE: LLL<br>Price: $67.20<br>Dividend / Yield: $1.80 / 2.7%<br>52-Wk. Rng.: $58.30 - $88.55<br>Market Cap.: $6.7 B<br><u>2010 Financial Performance (Cons.)</u><br>Revenue: $15.7 B<br>Op. Income: $1.8 B | *Engility*<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br><u>2011E Financial Perf. (Spin-Off)</u><br>Revenue: $2.0 B<br>Op. Income: $179 M | Spin-Off Announcement: 7/28/2011<br>Spin-Off Date: 1H 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On July 28, 2011, L-3 Communications Holdings Inc. (NYSE: LLL) announced that its Board of Directors had approved a plan to spin off its Government Services unit, to be named Engility, to shareholders in a tax-free distribution scheduled for 1H 2012. Management projects 2011 pro forma sales for Engility of about $2 billion and EBITDA of $193 million. Businesses that will be spun off include L-3's systems engineering and technical support as well as training and operational support services for the Department of Defense, other US government agencies, and other civil and international clients. L-3's cyber solutions business will remain a part of the parent. L-3 is expected to have a stronger growth profile and higher operating margins following the separation, according to management. The spin-off will comprise most of the businesses directly affected by the expected decline in active combat troops. Training and operational support services would appear far more exposed to likely US military spending cuts. On the other hand, L-3's more growth-oriented businesses will stay with the parent. Given continued demand for homeland security, intelligence and cyber-security programs would seem to remain government spending priorities. Intelligence-related operations will account for roughly 12% of post-spin parent revenue. Investors could accord the parent a higher multiple following the transaction, as growth prospects and margins may appear stronger following the spin-off of the commoditized businesses, with their slow or declining growth.

L-3 expects Engility will pay a dividend of $500-$650 million to the parent and carry debt/EBITDA in the range of 3x-4x. Based on 2011 EBITDA guidance, debt could be about $675 million. L-3 could use the cash for acquisitions to increase exposure to faster-growing non-commoditized electronics businesses. L-3 had previously been urged to consider ways to boost shareholder interest. Activist firm Relational Investors recently took a 6% stake in the company, and, in a June 2011 SEC filing, Relational argued that L-3 had underperformed defense-related stocks and the broader market due to its uneven mix of businesses. The company operates in several defense segments, including high-margin electronics and intelligence, as well as more commoditized aircraft maintenance and government services. LLL appears to trade at a modest discount to a defense contractor peer group when valued based on 2011 consensus EBITDA estimates. A likely reason for the discount is a consensus projection for declining EBITDA in 2012.

Notably, higher-margin, electronics-focused defense contractors trade at a considerable premium to the more diversified defense businesses. A group including FLIR Systems (NASDAQ: FLIR), Cubic Corp. (NYSE: CUB), and Rockwell Collins (NYSE: COL) trades at an EV/FY2012E EBITDA of about 7.5x, while LLL trades about 6.0x consensus FY2012 EBITDA estimates. Post-spin LLL could be rewarded with a much higher multiple if it is grouped with these businesses following the separation of the more commoditized Government Services segment.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Harris Associates LP | 5.3% | **6** | Pzena Investment Management | 3.6% |
| **2** | Clearbridge Advisors | 5.1% | **7** | LSV Asset Management | 3.4% |
| **3** | Bank of New York Mellon | 4.7% | **8** | BlackRock Institutional Trust Company | 3.1% |
| **4** | Vanguard Group | 3.9% | **9** | Artisan Partners | 3.1% |
| **5** | State Street Corporation | 3.9% | **10** | Barrow, Hanley, Mewhinney & Strauss | 2.9% |

## The McGraw-Hill Companies, Inc. / McGraw-Hill Education

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *The McGraw-Hill Companies, Inc.*<br>NYSE: MHP<br>Price: $45.33<br>Dividend / Yield: $1.00 / 2.3%<br>52-Wk. Rng.: $34.95 - $46.99<br>Market Cap.: $13.3 B<br>2010 Financial Perf. (Post Spin-Off Parent)<br>Revenue: $2.7 B<br>Operating Income: $1.2 B | *McGraw Hill Education*<br>N/A<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>2010 Financial Perf. (Pro Forma)<br>Revenue: $2.4 B<br>Op. Income: $363 M | Spin-Off Announcement: 9/12/11<br>Spin-Off Date: 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On September 12, 2011, The McGraw-Hill Companies (NYSE: MHP) announced that its Board of Directors had approved a plan to separate into two publicly traded companies: (1) McGraw-Hill Markets, which will encompass Standard & Poor's, Platts, Capital IQ, S&P Indices, and J.D. Power and Associates, and (2) McGraw-Hill Education, a provider of published materials and digital services to the K-12, higher education, and professional development markets. The spin-off of Education will be effected via a tax-free distribution to shareholders, which is expected to be completed in 2012. Capital and liability allocations are yet to be finalized. The spin-off will require SEC approval and an affirmative IRS ruling. MHP CEO Terry McGraw will lead McGraw-Hill Markets going forward. A search will be conducted to find a CEO for Education.

MHP also announced an extensive cost-reduction plan and an accelerated share repurchase program as part of its efforts to enhance shareholder value. MHP intends to buy back $1 billion in shares in 2011. Year to date, the company has repurchased 14.1 million shares at a cost of about $541 million. In November 2011, MHP announced it will combine its index business with CME Group (NYSE: CME) in a joint venture with S&P/Dow Jones Indices. MHP will own 73% of the business. In October 2011, MHP said it would sell its Broadcasting Group to The E.W. Scripps Company (NYSE: SSP) for $212 million cash. The deal is expected to close in 2012.

MHP Markets is expected to generate about $4 billion in revenue, while Education should account for about $2.4 billion in sales in 2011. MHP trades relatively in-line with rating agency peer Moody's Corporation (NYSE: MCO), but at a discount to financial publishing firms Morningstar Inc. (NYSE: MORN) and Thomson Reuters Corp. (NYSE: TRI). The discount could be explained by a number of factors, including the difficulty of valuing the disparate pieces of MHP's global operations, as well as concerns and uncertainty about future regulations of credit rating agencies.

The Education segment is likely to face challenges as a stand-alone business. Growth has been stagnant due in part to the evolution of Internet-based education materials. The shift to online transmission of teaching sources has increased competition and limited textbook publishers' ability to raise prices. Given local and state budget constraints, these problems could be exacerbated in coming years. As for the Markets segment, margins for the index and database businesses could be under pressure as clients push for fee reductions. S&P would appear to have limited alternatives to reduce costs to offset fee declines. The joint venture with CME Group may only marginally reduce those pressures for the index business.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Capital World Investors | 10.3% | **6** | Dodge & Cox Inc. | 3.0% |
| **2** | State Street Corporation | 4.3% | **7** | Jana Partners LLC | 2.6% |
| **3** | Vanguard Group Inc. | 4.3% | **8** | BlackRock Institutional Trust Company | 2.4% |
| **4** | Oppenheimer Funds Inc. | 3.8% | **9** | Ontario Teachers' Pension Plan Board | 2.3% |
| **5** | T. Rowe Price Associates | 3.3% | **10** | Fiduciary Management Inc. | 2.2% |

## MeadWestvaco Corporation / Consumer and Office Products Business

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *MeadWestvaco Corporation*<br>NYSE: MWV<br>Price: $29.87<br>Dividend / Yield: $1.00 / 3.4%<br>52-Wk. Rng.: $22.75 - $34.51<br>Market Cap.: $5.1 B<br>2010 Financial Perf. (Post Spin-Off Parent)<br>Revenue: $5.3 B | *Office Products Segment*<br>N/A<br>N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>2010 Financial Perf. (Pro Forma)<br>Revenue: $800 M | Spin-Off Announcement: 11/17/11<br>Spin-Off Date: 1H 2012<br>Tax Status: Tax-free<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from IRS, ABD shareholders<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On November 17, 2011, MeadWestvaco Corporation (NYSE: MWV) announced plans to separate its office products segment and immediately merge it with office supplies manufacturer ACCO Brands (NYSE: ABD). MWV shareholders will receive approximately one share of ACCO Brands for every three shares of MWV held as of the record date, while MWV will receive $460 million in cash. Following the transaction, MWV shareholders are expected to own approximately 50.5% of ABD. MWV's office products segment includes the Mead, FiveStar, and Trapper Keeper brands. ABD expects the transaction to be immediately accretive and generate $20 million in annual cost synergies by 2014. After the separation, MWV will focus on its core paper and packaging businesses. The transactions are expected to be completed in 1H 2012. The deal still requires ABD shareholder approval, while the separation is contingent on an affirmative IRS ruling. ABD management will run the merged company. MWV intends to maintain its current quarterly dividend of $0.25 per share.

ACCO Brands was created through another spin and merge transaction. In 2005, as distribution channels narrowed and margins compressed, Fortune Brands (FO) management merged its office products segment with ACCO. With each entity's sales focused on similar end markets, the merger was seen as generating synergies. However, ongoing consolidation in distribution channels as well as the weakening economic environment eroded the anticipated benefits from the merger. ABD underwent a 36-month restructuring and repositioning campaign to exit lower-margin businesses, close redundant facilities, and focus on leading-edge and top-selling product lines. SG&A increased, largely because of higher restructuring costs. Operating margins were challenged due to pricing pressure, a weakening economy, competition, and distribution channel shrinkage. From the year pre-spin (2004) to the year post-spin (2006), the operating margin declined by more than half.

Although ABD has begun to recover in the last 18 months, in the years following the separation it has significantly underperformed the Russell 2000 as well as Avery Dennison Corporation (NYSE: AVY), which we are using as a proxy for the office supply segment. In the post-separation period, ABD has declined about 67%, compared with a 54% drop for AVY and 7% growth for the Russell 2000.

The merged entity would have generated about $2.08 billion in sales in 2010. When compared to the larger AVY, which appears to have the ability to generate higher net margins due to its size and scale, ABD currently trades at a lower price-to-sales ratio. If the new ABD can generate synergies and improve margins based on its larger size, one could consider a P/S multiple more in line with AVY. Applying a 0.43x multiple to 2010 sales of $2.08 billion calculated for the merged entity would generate a market capitalization of $895 million. Upside could be found through increased synergies or faster sales growth in non-domestic markets.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Capital World Investors | 10.1% | **6** | T. Rowe Price Associates, Inc. | 3.7% |
| **2** | The Vanguard Group, Inc. | 5.2% | **7** | Capital Research Global Investors | 3.5% |
| **3** | State Street Corp. | 4.8% | **8** | Bank of New York Mellon Corp. | 3.2% |
| **4** | Franklin Resources, Inc. | 4.4% | **9** | BlackRock Intitutional Trust Co. | 3.0% |
| **5** | BlackRock Advisors, LLC | 3.8% | **10** | BlackRock Fund Advisors | 2.4% |

## Ralcorp Holdings, Inc. / Post Holdings

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Ralcorp Holdings, Inc.*<br>NYSE: RAH<br>Price: $85.73<br>Dividend / Yield: N/A<br>52-Wk. Rng.: $59.23 - $91.35<br>Market Cap.: $4.7 B<br><u>FY2010 Fin. Performance (Cons.)</u><br>Revenue: $4.0 B<br>Adj. Operating Profit: $566 M | *Post Holdings*<br>NYSE: POST<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br><u>FY2010 Fin. Perf. (Branded Cereals)</u><br>Revenue: $988 M<br>Segment Profit: $221 M | Spin-Off Announcement: 7/14/2011<br>Spin-Off Date: 1Q 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: Filed 9/26/2011<br>Published Report: 12/2/2011 |

**DESCRIPTION**

On July 14, 2011, Ralcorp Holdings, Inc. (NYSE: RAH) announced that its Board of Directors had approved the spin-off of its branded cereals business via a tax-free distribution to shareholders. RAH will distribute at least 80% of the equity of Post Holdings, Inc. in a transaction that is expected to be completed near the end of January 2012. The spin-off will require SEC approval and an affirmative IRS ruling. The new company has filed for a listing on the New York Stock Exchange under the ticker “POST.”

To understand the motives for the transaction, one must look at RAH’s history of acquisitions. Since 2000, the company has acquired 18 companies, the majority of which were small, primarily private-label food manufacturers. The notable exception was the $2.6 billion Post Cereals acquisition in 2008. That acquisition proved ill timed, as the economy went into a recession, consumer spending pulled back, and input costs have risen sharply. The net result has been declining sales and margins at the branded segment, whereas the private label segments have fared better.

A refocus on RAH’s core private label business via shedding the underperforming Post business appears to be at the heart of this transaction. Looking at possible post-spin scenarios, it is likely that the $1.1 billion in cash RAH will receive from the transaction will fund a return to smaller private-label acquisitions fostering earnings growth. Post will attempt to leverage existing brands as it attempts to reverse the negative sales trends. One could argue that combining the lower-margin private label business with the higher-margin yet currently struggling operations of the branded cereal products obscures true performance and results in an unwarranted valuation discount. In fact, pre-spin RAH shares currently trade at sizeable discount to peers based on consensus fiscal 2012 EBITDA estimates.

One could view the intention of RAH’s current management to remain with the parent, and the saddling of POST with $1.1 billion in debt while RAH reaps the cash, as an indication of the near-term prospects. In this light, it could be said that following the transaction, RAH may be better positioned for the current environment and may receive a higher valuation multiple. POST shares, being the leveraged entity and with a less clear path to earnings growth, may initially be out of favor but may provide longer-term value investors with attractive entry points.

Given this, one could assign a fair value estimate of $91 per share to RAH prior to the spin-off. Further, for longer-term holders, purchasing RAH shares offers upside potential to this fair value estimate. Revenue growth and margin expansion may result in a sum-of-the-parts valuation for the two companies of $103. With this in mind, shares of RAH are recommended for purchase ahead of the spin-off transaction.

Please refer to our published *Spin-Off Report* on Ralcorp Holdings, Inc., dated December 2, 2011, for additional information.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | AllianceBernstein | 7.9% | **6** | BlackRock Institutional Trust Company | 3.7% |
| **2** | ValueAct Capital Management | 5.5% | **7** | INTECH Investment Management | 2.2% |
| **3** | Harris Associates | 5.0% | **8** | Capital Research Global Investors | 2.1% |
| **4** | Vanguard Group | 3.8% | **9** | Sasco Capital | 1.3% |
| **5** | State Street Global Advisors | 3.8% | **10** | BlackRock Financial Management | 1.1% |

## Sara Lee Corporation / International Beverage Business

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Sara Lee Corporation*<br>NYSE: SLE<br>Price: $18.86<br>Dividend / Yield: $0.46 / 2.4%<br>52-Wk. Rng.: $15.66 - $20.26<br>Market Cap.: $11.1 B<br>FY2010 Fin. Performance (Parent)<br>Revenue: $4.6 B | *International Beverage Business*<br>N/A<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br>FY2010 Fin. Performance (Spin-Off)<br>Revenue: $3.2 B | Spin-Off Announcement: 1/28/2011<br>Spin-Off Date: 1Q 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On January 28, 2011, Sara Lee Corp. (NYSE: SLE) announced that its Board of Directors had approved the tax-free spin-off of its North American Retail and Foodservice businesses. However, the terms of the proposed transaction have changed, as management announced on June 14, 2011, that the spin-off company would comprise the international coffee and tea business, rather than the North American business. The spin-off is still expected early in 2012. The brands of the international beverage business include Douwe Egberts, Senseo, Café Caboclo, and Café Pilao. SLE also intends to declare a $3 per share special dividend prior to the spin-off, funded largely through the previously announced sale of its North American bakery business. The announcement follows a long-drawn-out process during which management reportedly received takeover offers for certain of its businesses.

Management had indicated that the reason for the separation was to help maximize shareholder value while enabling the separate managements to focus on distinct growth strategies and end markets. The expectation is that the two new companies will develop separate focused shareholder groups. The spin-off also will enable prospective buyers more easily to consider the attributes of the separate businesses. Each business could become a more appealing acquisition candidate to a wider pool of buyers, in our view.

There appears to be little upside in the short term, given the significant run-up in the stock on investor expectations of a potential near-term sale of the entire company. The stock currently trades at a much higher forward P/E multiple than other food service companies, although at a modest discount to coffee producers. We note that SLE has generated much higher margins for the international beverages business than for the other. Longer term, we expect buyers may be enticed by strong brands in both businesses, and there is potential upside to the stock price if offers are made pre- or post-spin-off.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| 1 | AllianceBernstein | 7.9% | 6 | BlackRock Institutional Trust Company | 3.7% |
| 2 | ValueAct Capital Management | 5.5% | 7 | INTECH Investment Management | 2.2% |
| 3 | Harris Associates | 5.0% | 8 | Capital Research Global Investors | 2.1% |
| 4 | Vanguard Group | 3.8% | 9 | Sasco Capital | 1.3% |
| 5 | State Street Global Advisors | 3.8% | 10 | BlackRock Financial Management | 1.1% |

## Tyco International, Ltd. / ADT North American and Flow Control

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *Tyco International*<br>NYSE: TYC<br>Price: $46.85<br>Dividend / Yield: $1.00 / 2.2%<br>52-Wk. Rng.: $37.39 - $53.38<br>Market Cap.: $21.6 B<br><u>2011E Fin. Performance (Parent)</u><br>Revenue: $10.2 B | *ADT North American / Flow Control*<br>N/A<br>N/A<br>Price: N/A<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: N/A<br><u>2011E Fin. Performance (Post-Spin-Off)</u><br>Revenue: $3.1 B / $3.6 B | Spin-Off Announcement: 9/19/2011<br>Spin-Off Date: 2012<br>Tax Status: Tax-free expected<br>Spin-Off Ratio: N/A<br>Prerequisites: Approval from SEC, IRS, shareholders, and Board of Directors<br>Form 10: N/A<br>Published Report: N/A |

**DESCRIPTION**

On September 19, 2011, Tyco International (NYSE: TYC) announced that its Board of Directors had approved a plan to separate into three publicly traded companies: (1) ADT North American Residential, which designs, installs, and maintains home security systems, (2) Flow Control, a global manufacturer of engineered valves and controls for various end markets, including energy and water, and (3) Commercial Fire and Security, which manufactures commercial fire and retail security systems. The spin-off will be effected via a tax-free distribution of ADT and Flow Control to shareholders, which is expected to be completed in 2012. Capital and liability allocations are yet to be finalized. The spin-off will require SEC approval and an affirmative IRS ruling and is subject to a TYC shareholder vote. TYC CEO Ed Breen will become non-executive chairman of the commercial fire and security business, a director of the flow control company, and a consultant to the ADT business. It is expected that all three entities will initially pay a dividend, which in sum should equal TYC’s current annual payment.

Tyco has been down this road before. In July 2007, Tyco split off its medical device and supply business into Covidien Ltd. (NYSE: COV) and its electronic components operations into Tyco Electronics (NYSE: TEL), leaving behind TYC with all the remaining segments, including the flow control, fire protection, and security businesses. Following that spin-off, margins suffered across the three businesses on cost duplications. Last year TYC announced plans to spin off its electrical and metal products operations, and it filed a Form 10 in September 2010. Just two months later, TYC announced that private equity firm Clayton, Dubilier & Rice would buy a 51% stake in those businesses, generating proceeds of $720 million to TYC. The funds were used to repurchase shares.

ADT North American is expected to generate sales of $3.1 billion in FY2011, Flow Control should account for $3.6 billion, and Commercial Fire and Safety should contribute $10.2 billion. The ADT business will control approximately 26% of the US home security market. North American revenue and consolidated segment operating margins have generally been trending higher since 2009. The Flow Control business splits its end markets between process (38%), energy (37%), and water (25%). Revenue has been flat since 2009, but segment margins have been hampered as volume from its higher-margin valve business has decreased.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Dodge & Cox | 4.3% | **6** | ClearBridge Advisors | 2.5% |
| **2** | State Street Global Advisors | 4.0% | **7** | BlackRock Institutional Trust Company | 2.4% |
| **3** | Vanguard Group | 3.7% | **8** | Invesco Ltd. | 1.9% |
| **4** | JP Morgan Chase & Co. | 2.7% | **9** | Cramer Rosenthal McGlynn LLC | 1.7% |
| **5** | Ameriprise Financial, Inc. | 2.6% | **10** | Fiduciary Management, Inc. | 1.5% |

## The Williams Companies / WPX Energy Inc.

| PARENT | SPIN-OFF | STATUS |
|---|---|---|
| *The Williams Companies*<br>NYSE: WMB<br>Price: $26.46<br>Dividend / Yield: $1.00 / 3.8%<br>52-Wk. Rng.: $21.90 - $33.47<br>Market Cap.: $15.5 B<br>2011 Fin. Performance (Consolidated)<br>Revenue: $9.6 B | *WPX Energy Inc.*<br>NYSE: WPX<br>Price: $17.47<br>Dividend / Yield: N/A<br>52-Wk. Rng.: N/A<br>Market Cap.: $3.5 B<br>Financial Metrics<br>Proved reserves: 4,473 bcfe<br>Daily production: 1,296 MMcfe/d | Spin-Off Announcement: 10/18/2011<br>Spin-Off Date: 1/3/2012<br>Tax Status: Tax-free<br>Spin-Off Ratio: 1:3<br>Prerequisites: Approval received from SEC, IRS, shareholders, and Board of Directors<br>Form 10: Amended 11/23/2011<br>Published Report: 11/17/2011<br>FLASH: 12/1/2011 |

**DESCRIPTION**

The Williams Companies (NYSE: WMB) announced that its Board of Directors had approved the spin-off of its exploration and production assets, WPX Energy Inc., which began trading “when issued” on the NYSE under the ticker “WPX” on December 12, 2011. Shares of WPX were distributed on December 31, 2011, to WMB shareholders, with “regular way” trading expected to commence on January 3, 2012. WMB holders received one share of WPX for every three shares of WMB held at the close of business on December 14, 2011.

The separation allows management to focus on meeting growing demand in its separate businesses. WPX can base spending priorities on developing and producing oil or natural gas assets, while Williams can meet changing needs for US commodity processing and transportation as domestic gas production reaches record levels. The E&P assets include natural gas reserves in the Rockies’ Piceance Basin and Appalachia’s Marcellus Shale as well as the oily Bakken Shale in North Dakota. WPX also has Argentine hydrocarbon production through its 69% interest in Apco Oil and Gas International (NASDAQ: APAGF). Those assets are gassy, and following the transaction they could receive a discount from the market to reflect the hydrocarbon mix. However, that potential discount may present an opportunity for investors if and when natural gas prices improve or a larger player considers making an offer for the assets, as BHP Billiton (NYSE: BHP) did for Petrohawk earlier this year. (This is not to argue that WPX’s assets are as geographically ideal as Petrohawk’s assets were, but simply that natural gas resources could be takeover candidates during a period of historically low oil-to-natural gas price differentials.)

Following the spin-off, WMB will hold a 75% interest, including the 2% general partner (GP) interest, in Williams Partners LP (NYSE: WPZ), a master limited partnership (MLP) with assets in the Rocky Mountains and on and offshore Gulf of Mexico. Assets include gas gathering, processing, and treating facilities, as well as pipelines. Capital expenditures may be heavy in the next three to five years, given ongoing demand for new oil and natural gas infrastructure. The company is building out gathering pipeline in the rapidly expanding Marcellus Shale of Pennsylvania and also has pipeline and processing equipment in the Gulf Coast and the Rockies, an interstate pipeline in the Pacific Northwest, and processing assets in Canada. All the assets are housed within the MLP, with the exception of the olefins operations and Canadian operations, which could not qualify for inclusion in WPZ.

WMB raised its quarterly dividend to $0.25 per share starting with the December 2011 payout, and the company has targeted double-digit dividend expansion post separation. The opportunities seem substantial, but the risk to investors will be in assessing WMB’s ability to hike the dividend while also spending aggressively and wisely to meet growing infrastructure needs. Please refer to our published *Spin-Off Report* on The Williams Companies, dated November 17, 2011, and our FLASH, dated December 1, 2011, for additional information.

**PARENT TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | State Street Corporation | 4.3% | **6** | Franklin Resources, Inc. | 1.8% |
| **2** | The Vanguard Group, Inc. | 4.0% | **7** | Kensico Capital Management Corp. | 1.7% |
| **3** | JP Morgan Chase & Co. | 3.4% | **8** | Massachusetts Financial Services Co. | 1.5% |
| **4** | FMR LLC | 3.4% | **9** | UBS AG | 1.4% |
| **5** | BlackRock Institutional Trust Co. | 2.5% | **10** | Invesco Ltd. | 1.4% |

# LIST OF GLOBAL TAX-FREE SPIN-OFFS

The spin-offs listed here are occurring outside the US, and are therefore not covered by *The Spin-Off Report*. In-depth analysis of these spin-offs is provided by *The Global Spin-Off Report*. For further information on *The Global Spin-Off Report*, please contact PCS Research Services at 212-233-0100.

| Parent | Symbol | Country | Spin-Off Date/ Expected Date | Spin-Off | Symbol | Country |
|---|---|---|---|---|---|---|
| **Global Upcoming Spin-Offs** | | | | | | |
| Orascom Construction Industries | OCIC | Egypt | 1Q 2012 | Fertilizer Co. | | Egypt |
| **Global Completed Spin-Offs** | | | | | | |
| Telecom Corp. of N. Zealand | TEL-NZ | NZ | Nov-11 | Chorus | CNU-NZ | NZ |
| Open Range Energy Corp. | ONR-T | Canada | Nov-11 | Poseidon Concepts | PSN-T | Canada |
| Punch Taverns plc | PUB-LN | UK | Aug-11 | Spirit plc | SPRT-LN | UK |
| Carrefour SA | CA-FR | France | Jul-11 | Dia | DIA-MC | Spain |
| Mondi Ltd | MND-JO | S. Africa | Jul-11 | Mpact Ltd | MPT-JO | S. Africa |
| Aker Solutions | AKSO-OS | Norway | Jul-11 | Kvaerner | KVAER-OS | Norway |
| Shinsegae Co. | 004170-SE | S. Korea | Jun-11 | E-Mart Co. | 139480-SE | S. Korea |
| Haldex AB | HLDX-SK | Sweden | Jun-11 | Concentric AB | COIC-SK | Sweden |
| Tabcorp Holdings | TAH-AU | Australia | Jun-11 | Echo Entertainment | EGP-AU | Australia |
| Toromont Industries | TIH-T | Canada | Jun-11 | Enerflex Ltd. | EFX-T | Canada |
| PostNL N.V. (fka TNT N.V.) | PNL-AE | Netherlands | May-11 | TNT Express NV | TNT-AE | Netherlands |
| Essar Shipping Ports | ESSARSHPNG-IN | India | May-11 | Essar Ports/Essar Shipping | ESSARPORTS-IN | India |
| Foster's Group | FGL-AU | Australia | May-11 | Treasury Wine Estates | TWE-AU | Australia |
| Rieter Holding AG | RIEN-EB | Switzerland | May-11 | Autoneum Holding AG | AUTN-EB | Switzerland |
| RMB Holdings Ltd. | RHM-JO | South Africa | Mar-11 | RMI Holdings | RMI-JO | South Africa |
| Straits Resources Ltd. | Acquired | Australia | Feb-11 | Straits Metals Ltd. | SRQ-AU | Australia |
| ArcelorMittal | MT-NA | Amsterdam | Jan-11 | Aperam | APAM-NA | Amsterdam |
| Fiat S.p.A. | F-MI | Italy | Jan-11 | Fiat Industrial | FI-MI | Italy |
| Grupo Carso | GCARSO.A1-MX | Mexico | Jan-11 | Inmuebles Carso | INCARSO.B.1-MX | Mexico |
| Grupo Carso | GCARSO.A1-MX | Mexico | Jan-11 | Minera Frisco | MFRISCO.A.1-MX | Mexico |
| Modern Times Group | MTG'B-SK | Sweden | Dec-10 | CDON Group AB | CDON-SK | Sweden |

Source: *The Global Spin-Off Report* .