# THE SPIN-OFF REPORT

June 2012

## RADAR SCREEN

These companies are on our radar screen for a variety of reasons: a similar company may have recently announced a spin-off, the company may be under investor pressure to consider strategic alternatives, or the current segments may not prove a synergistic fit and as a result the stock trades at a discount to its closest peers. While we are neither advocating a spin-off nor making the case that a spin-off is likely in the near term, these are names that we are following.

| Company | Symbol | Top Holder | % Ownership |
|---|---|---|---|
| Barnes & Noble Inc. | BKS | Leonard Riggio | 29.8% |
| BP plc | BP | State Street Global Advisors | 1.3% |
| Cincinnati Bell Inc.* | CBB | Peninsula Capital Advisors | 8.5% |
| Cytec Industries Inc.* | CYT | Passport Capital | 5.8% |
| **Dole Food Company** | **DOLE** | Lord Abbett & Co. | 5.3% |
| Hertz Global Holdings | HTZ | Clayton, Dubilier & Rice, LLC | 14.7% |
| Lennar Corp. | LEN | FMR LLC | 18.0% |
| Loral Space & Communications | LORL | MHR Fund Management | 38.4% |
| Murphy Oil Corporation | MUR | T. Rowe Price | 8.6% |
| News Corp.* | NWSA | Capital Research Global Investors | 7.7% |
| PepsiCo Inc. | PEP | Vanguard Group | 4.4% |
| Pfizer Inc. | PFE | State Street Global Advisors | 3.7% |
| **Progress Software Corp.** | **PRGS** | T. Rowe Price | 7.5% |
| Republic Airways Holdings Inc. | RJET | Donald Smith & Company | 10.1% |
| Textron Inc. | TXT | FMR LLC | 10.6% |
| Unit Corp. | UNT | Royce & Associates | 14.3% |

*indicates updated information in this edition
new entries are in bold

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**New – Dole Food Company (NYSE: DOLE); Progress Software (NASDAQ: PRGS)**
**Updates –Cincinnati Bell (NYSE: CBB); Cytec Industries (NYSE: CYT); News Corp. (NASDAQ: NWSA)**

**Dole Food Company (NYSE: DOLE)**
In May 2012, after reporting an exceptionally weak quarter, management announced it was exploring strategic alternatives, including the possible separation of one or two businesses. The company's operating results were hurt by weak banana prices and slow sales of fresh vegetables. Meanwhile, the packaged foods segment reported flat results. The fresh fruits and fresh vegetables segments are far more exposed to swings in commodity prices, which can hide more stable packaged foods revenue and margins. One might expect the packaged foods business to receive a higher earnings multiple if it were separated from fresh fruits and vegetables.

DOLE is burdened with a heavy debt load resulting from the leveraged buyout by David H. Murdock in early2003. The stock went public again in 2009. Currently debt/equity stands at nearly 190%, and debt to trailing 12-month EBITDA is more than 5x. Hypothetically, in a separation, more of the debt could be carried by the packaged foods segment, given its stronger and more consistent margins and cash flow. Potentially this could result in a better credit rating for the packaged foods segment even if it carried a greater percentage of net debt post transaction.

On an EV/EBITDA basis, DOLE trades at about 6.2x 2011 EBITDA as of late May 2012. By comparison, packaged foods companies, including Campbell Soup Co. (NYSE: CPB) and J.M. Smucker Co. (NYSE: SJM), are trading on average closer to 8.5x trailing EBITDA, while fresh foods suppliers such as Chiquita Brands International (NYSE: CQB) and Fresh Del Monte Produce Inc. (NYSE: FDP) are trading closer to 6.5x EBITDA. It would appear that DOLE gets little credit for its more stable packaged foods segment. Applying an 8.5x multiple to DOLE's packaged foods 2011 EBITDA of about $123 million generates a potential spin-off enterprise value of close to $1.1 billion, nearly half the current enterprise value of the entire company. Even when assuming only a 6x multiple for fresh fruits and vegetables, one can arrive at an enterprise value of $1.9 billion. Subtracting net debt of $1.6 billion, and considering 88 million shares outstanding, one would reach a sum-of-the-parts fair value estimate of nearly $15, well above the current price.

**TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Lord Abbett & Co. | 5.3% | **6** | Dimensional Fund Advisors | 3.2% |
| **2** | Robeco Investment Management | 4.3% | **7** | Vanguard Group | 2.1% |
| **3** | AllianceBernstein | 4.2% | **8** | Lee Munder Capital Group | 2.0% |
| **4** | Aletheia Research & Management | 4.0% | **9** | Sterling Capital Management | 1.8% |
| **5** | BAMCO | 4.0% | **10** | Scott & Stringfellow | 1.7% |

**Progress Software Corp. (NASDAQ: PRGS)**
On April 25, 2012, PRGS announced a strategic plan to increase growth, profitability, and shareholder value that included an anticipated divestiture of ten non-core product lines. The divestitures are an attempt to strategically focus the company on core application development and deployment products, with a focus on being hosted in the cloud. The announcement of a new strategic plan was likely spurred by activist investor Starboard Value LP, which took a 5.1% stake and launched a proxy fight in early 2012, nominating two candidates for PRGS's board of directors. Since the strategic plan announcement, Starboard has withdrawn its director nominations.

In FY2011, these ten non-core products contributed $172 million in revenue, or approximately 32% of PRGS's total revenue. While management has stated that it has been working on contacting potential buyers for the ten businesses, it is unclear at this time who the potential buyers would be and whether management would be able to attract a suitable offer. If management cannot find a purchaser willing to pay an attractive price, PRGS could decide to spin off the ten products into a standalone company. It can be argued that PRGS would be better positioned to compete in the cloud-computing space and more attractive to investors following the proposed divestitures, as it expects post-divestiture operating margins of 35% and annual cost savings of $50 million. The company, which anticipates reinvesting $15 million in its core products, also announced a $350 million share repurchase program. PRGS plans to complete the divestitures by the end of FY2013.

PRGS's operating performance has lagged peers recently, with operating margins averaging 15.3% over the past five years and with trailing-12-month operating margins of just 9.7%. In comparison, a basket of software peers average an operating margin of 21.5% over the past 12 months. Following the divestitures, management expects that operating margins will expand to 35%. If one were to use a price-to-sales multiple of 3.5x on the remaining core business, roughly in line with peers with similar operating margins, one could arrive at a market capitalization roughly equal to the company's current market cap. If PRGS were to spin off the non-core product lines, investors could view the distribution as a dividend that provides an option on any upside potential of these non-core businesses.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | T.Rowe Price Associates Inc. | 7.5% | **6** | Praesidium Investment Management Co. LLC | 5.2% |
| **2** | FMR LLC | 6.6% | **7** | Starboard Value LP | 5.2% |
| **3** | Perkins Investment Management, LLC | 6.2% | **8** | BlackRock Fund Advisors | 4.5% |
| **4** | Vanguard Group, Inc. | 5.7% | **9** | Ameriprise Financial, Inc. | 3.8% |
| **5** | Artisan Partners LP | 5.4% | **10** | Daruma Asset Management | 3.7% |

**Barnes & Noble Inc. (NASDAQ: BKS)**

In April 2012, Microsoft (NASDAQ: MSFT) announced it was investing $300 million to take a 17.6% stake in NewCo, which will include BKS's Nook e-reader and college segment (operator of 641 college bookstores). BKS will hold the remaining stake. The stock was up more than 50% on the day of the announcement. The bookseller is exploring the separation of this busines but has yet to make a final decision on a separation or on how the separation would work. BKS said no further comment will be made on the matter until a decision is reached. Activist investor Jana Partners has taken a 12% stake in BKS. Jana is thought to have earlier pushed McGraw-Hill (NYSE: MHP) into a separation of its Education unit. BKS rallied more than 15% on the day the Jana stake was made public. In March 2012, Michael Huseby was named CFO. Huseby, who is notable for his experience with spin-offs, was previously CFO at Cablevision Systems Corp. (NYSE: CVC). During his tenure, the cable operator completed two spin-off transactions. Also in March, BKS shareholder G Asset Management offered to purchase 51% of the company's college bookstores for $460 million. G had previously pushed for BKS to seek ways to lift shareholder value, including a possible separation.

BKS has invested heavily in developing the technology to compete with Amazon.com Inc. (NASDAQ: AMZN) and Apple Inc. (NASDAQ: AAPL) to capture a share of the rapidly expanding e-reading market. Thus far the company has refused to detail specific results for Nook margins, while acknowledging that the division remains unprofitable. One might argue that it would be difficult to spin off an unprofitable business despite its rapid growth, but a spin-off could open up opportunities to new investors who are skeptical about the growth prospects for the book retailer's brick-and-mortar operations. Notably, in the summer of 2011, Barnes & Noble's largest rival, Borders Group Inc., announced plans to close all its stores and liquidate. Meanwhile, BKS's college segment generated $120 million in EBITDA through the three quarters ending January 2012. Cash flow from the college bookstores could potentially sustain the Nook until it reached profitability.

In 1H FY2012 (ending October 29, 2011), total BKS sales were essentially flat year over year at $3.3 billion, while the operating loss narrowed to $81 million from the year-earlier $98 million loss. While retail and college bookstore sales declined, BN.com reported revenue growth of 26% to $404 million. In February 2012, BKS expanded its Nook offering, and Office Depot Inc. (NYSE: ODP) announced plans to sell the product. Management projects that Nook and related digital sales should total about $1.5 billion for the full fiscal year.

**TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Leonard Riggio | 29.8% | **6** | Daniel Tisch | 5.1% |
| **2** | Ronald Burkle | 19.8% | **7** | BlackRock Institutional Trust | 3.6% |
| **3** | Jana Partners LLC | 11.6% | **8** | Clovis Capital Management | 2.8% |
| **4** | Fidelity Management | 10.0% | **9** | W.T.G. & Company | 2.5% |
| **5** | Dimensional Fund Advisors | 5.5% | **10** | State Street Global Advisors | 2.3% |

**BP plc (NYSE: BP)**
On July 26, 2011, CEO Bob Dudley said he would consider all options to lift shareholder value, including the potential separation of the company's refining assets. Fellow super-major ConocoPhillips (COP) announced on July 14, 2011, that it would spin off its refining and marketing segment, including 12 refineries in the US, as well as plants in the United Kingdom, Ireland, Germany, and Malaysia, to shareholders. COP stock rose about 2% on the trading day following the announcement.

BP operates 16 refineries worldwide, with BP's share of total daily capacity being about 2.7 million barrels. About 55% of capacity comes from BP's refineries (five owned and one shared) in the US. The remaining capacity is spread across the globe, including plants in South Africa, Europe, Australia, and New Zealand. BP is attempting to sell some US refineries and upgrade the remaining facilities to meet demand for processing Canadian crude. In March 2012, BP's refining chief said the company was also interested in purchasing refineries in Asia-Pacific. In 2011, refining and marketing EBIT increased nearly 10% to about $8 billion. Excluding inventory holding gains or losses, replacement profit declined about 1% to $5.5 billion. Higher refiner margins partially offset a modest decline in volume, largely the result of increased turnaround activity at certain plants. Based on an EV/processing capacity in line with other large US refiners, the enterprise value for BP's refining assets could be around $25 billion.

As of late May 2012, BP shares are down about 37% since the spring 2010 oil spill in the Gulf of Mexico. By comparison, the S&P Oil & Gas Exploration & Production Index is up about 10% over the same period. BP management seems committed to seeking ways to lift shareholder value following a period of significant tumult. By splitting up, BP could offer investors a choice between a large global E&P that may benefit from rising oil and natural gas prices, and one of the world's largest refiners, which could benefit in periods of rising refined product demand.

**<u>TOP 10 SHAREHOLDERS</u>**

| | | | | | |
|---|---|---|---|---|---|
| **1** | State Street Global Advisors | 1.3% | **6** | Mackenzie Financial Corporation | 0.3% |
| **2** | Wellington Management Company | 1.2% | **7** | T. Rowe Price Associates, Inc. | 0.3% |
| **3** | Fidelity Management & Research | 1.2% | **8** | Bill & Melinda Gates Foundation | 0.3% |
| **4** | Franklin Advisers, Inc. | 0.4% | **9** | Goldman Sachs Asset Management | 0.2% |
| **5** | Mason Capital Management | 0.3% | **10** | Barrow, Hanley, Mewhinney & Strauss | 0.2% |

**Cincinnati Bell Inc. (NYSE: CBB)**
***In May 2012, the Midwest telecom announced it was planning an initial public offering of its data center unit, CyrusOne, which was acquired two years earlier.*** The Midwest wireline telecom had been considering the potential sale or spin-off of its data center business, CyrusOne, which was acquired in 2010. The segment's growth has been hidden by continued weakness at CBB's other businesses. Segment revenue increased 21% in 2011 to $185 million, while CBB's other businesses generated full year revenue of $1.3 billion. The consolidated company generated adjusted net income of $69 million (ex $50 million in goodwill impairments). CBB purchased CyrusOne from ABRY Partners in June 2010, in a cash transaction valued at approximately $525 million. CBB paid about 5.5x trailing EBITDA for the business. If one applied that multiple to the $111 million generated in 2011, one could reach an enterprise value for the business of about $611 million. (However, given the current growth rate, one could argue the 5.5x multiple is too low.)

Data centers are trading around 9x EBITDA. Applying that multiple generates an EV of about $1 billion. If CyrusOne is truly comparable with other data centers, CBB could unlock value through a transaction, particularly if it could be structured as a REIT, as many data centers are. The enterprise value of CBB is currently about $3.3 billion. Lumos Networks Corp. (NASDAQ: LMOS), the wireline business recently spun off from NTELOS Holdings Corp. (NASDAQ: NTLS), and the bigger player CenturyLink (NYSE: CTL) trade at about 2.5x sales. Applying that multiple to the $1.3 billion generated by CBB's remaining businesses yields an EV of about $3.3 billion. A smaller entity like CBB, which currently has a significant debt load, probably warrants a discount. However, one could see value creation through a spin-off or sale that lowers CBB's debt level.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | Peninsula Capital Advisors | 8.5% | **6** | BlackRock Fund Advisors | 5.5% |
| **2** | Wells Fargo | 7.0% | **7** | Gabelli Funds | 4.5% |
| **3** | GAMCO Investors | 6.4% | **8** | Royal Capital Management | 4.1% |
| **4** | Pinnacle Associates | 6.0% | **9** | Lonestar Capital Management | 3.4% |
| **5** | Vanguard Group | 6.0% | **10** | BlackRock Institutional Trust | 3.1% |

**Cytec Industries (NYSE: CYT)**

***The specialty chemicals provider announced in May 2012 that it had retained J.P. Morgan to assist in efforts to sell its Coating Resins business.*** Previously the company was exploring the separation of its Coating Resins business, which might have included a spin-off. The segment accounted for about 50% of the company's total sales in 2011. The resins are used in a variety of markets, including decorative, automotive, packaging, industrial metal, plastic, and wood. In April 2012, CYTC announced a deal to acquire composite materials provider Umeco Plc for $439 million as it focuses on growth in other business lines. Coatings segment operating margins declined to 4% in 2011 (from 5% in 2010), dragging down overall corporate margins to 10% (flat with the prior year). In 4Q 2011, segment sales declined year over year. Weaker sales and low margins have led Cytec to consider whether a company with a higher growth profile and stronger margins could generate a higher multiple. Other segments of Cytec produce less commoditized goods, which appear less affected by price competition and weaker end markets.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | Passport Capital | 5.9% | **6** | Jana Partners | 3.0% |
| **2** | Vanguard Group | 4.7% | **7** | Goldman Sachs | 3.0% |
| **3** | FMR LLC | 3.8% | **8** | TIAA-CREF | 2.8% |
| **4** | Fisher Investments | 3.7% | **9** | Bank of New York Mellon | 2.7% |
| **5** | Fred Alger Management | 3.7% | **10** | BlackRock Institutional Trust | 2.6% |

**Hertz Global Holdings Inc. (NYSE: HTZ)**

CEO Mark Frissora said at a conference in May 2011 that the car rental service may consider spinning off its heavy equipment rental arm in the future. Hertz Equipment Rental Corp., known as HERC, provides earthmovers, pumps, and compressors, as well as assorted construction and industrial tools. The unit, negatively affected by the slowdown in nonresidential construction, underwent a restructuring in 2008, including the shuttering of several branches. HTZ has been seeking to expand its car rental operations through the proposed acquisition of smaller rival Dollar Thrifty Automotive Group Inc. (NYSE: DTAG), but Dollar Thrifty has thwarted those advances. In 2011, the equipment rental segment generated nearly $1.2 billion in revenue, or about 15% of total company sales. HERC's revenue rose more than 13% in 2011 from 2010, and EBITDA increased 20% to $481 million.

In December 2011, United Rentals Inc. (NYSE: URI) announced a deal to acquire RSC Holdings Inc. (NYSE: RRR) for $1.9 billion in cash and stock, or $18 per share, a 58% premium to RRR's previous closing price. The deal valued RRR at almost 9x TTM EBITDA. URI and RRR are close comparables to HERC. Based on that EV/EBITDA multiple, one could value HERC at an EV of more than $4 billion. Management may wait for a stronger recovery in the construction market before moving ahead with any spin-off plans, under the assumption that the stock market would not fully reflect the value of the business in the currently weak rental environment. In addition, management may be hesitant to put a significant portion of HTZ's more than $9 billion in net debt on HERC's books given the lack of stronger cash flow. In spring 2012, HTZ management guided for nearly 10% revenue growth in 2012 for the equipment rental business, and the segment has been making smaller niche acquisitions to expand in certain geographic and technical markets. HTZ went public in November 2006, a year after a private equity group acquired the rental firm from Ford Motor Co. (NYSE: F) in a $15 billion transaction.



HORIZON KINETICS

**TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Clayton, Dubilier & Rice, LLC | 14.7% | **6** | Wells Capital Management Inc. | 3.9% |
| **2** | The Carlyle Group | 13.1% | **7** | York Capital Management | 3.8% |
| **3** | Bank of America Merrill Lynch | 10.7% | **8** | Columbia Wanger Asset Management | 3.5% |
| **4** | T. Rowe Price Associates, Inc. | 6.4% | **9** | UBS Global Asset Management | 3.2% |
| **5** | Lord, Abbett & Co. | 4.6% | **10** | Vanguard Group, Inc. | 2.3% |

**Lennar Corp. (NASDAQ: LEN)**
The well-capitalized homebuilder could consider a spin-off of its real estate investment and management company Rialto Capital Management LLC. Rialto, created in 2007 to acquire distressed loans and properties, was established by the founders of LNR Property Corporation, which had acquired distressed properties following the 1990s S&L crisis. It was spun off from LEN in 1997, and a year later its assets had a book value of about $1.7 billion. In 2005 LNR was acquired by a private equity firm for $3.8 billion.

In February 2010, Lennar announced the purchase of two portfolios of loans with a combined unpaid balance of more than $3 billion. Lennar acquired a 40% interest in the LLCs created to hold the loans for about $240 million, while the Federal Deposit Insurance Corporation retained the remaining 60% equity interest. The transactions include more than 5,000 distressed residential and commercial real estate loans from 22 failed bank receiverships.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | FMR LLC | 18.0% | **6** | Neuberger Berman | 3.4% |
| **2** | Vanguard Group | 5.0% | **7** | JP Morgan Chase | 2.7% |
| **3** | Citadel Advisors | 4.3% | **8** | Taube Hodson | 2.7% |
| **4** | State Street | 4.1% | **9** | BlackRock Institutional Trust | 2.5% |
| **5** | TCW Group | 3.8% | **10** | Eminence Capital | 2.4% |

**Loral Space & Communications Inc. (NASDAQ: LORL)**
The satellite manufacturing and communications service provider has been exploring strategic alternatives for its two business units since last year. Options include the sale or recapitalization of the communications service provider Telesat, of which LORL holds a 64% share (Canada’s PSP Investments holds the remaining stake), and the potential spin-off of the manufacturing unit, Space Systems/Loral (SS/L). In early August 2011 LORL announced it would focus on the possible separation of the manufacturing units but gave no assurance that a transaction would occur. Three months later, management indicated a spin-off was the most likely future transaction. But in late February 2012, management reversed course and said other options were once again being considered. In the first three quarters of 2011, the manufacturing segment’s revenue declined 4% to $802 million, while adjusted EBITDA fell to $95.5 million from the year-earlier $105.6 million. More efficient production was more than offset by unfavorable product mix. Revenue for the satellite services unit, which includes the 64% Telesat stake, increased more than 4% in the first nine months of 2011 to $617 million on rising fleet utilization. Loral Space & Communications was formed out of the remaining pieces following the sale of the once mighty defense contractor Loral Corp.’s defense electronics business to Lockheed Martin Corp. (NYSE: LMT). A year later, LMT spun off several units from the Loral purchase into a new company, L-3 Communications Inc. (NYSE: LLL).

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | MHR Fund Management, L.L.C. | 38.4% | **6** | Regiment Capital Advisors, LP | 2.9% |
| **2** | EchoStar Corp | 7.2% | **7** | BlackRock Institutional Trust Company | 2.6% |
| **3** | Solus Alternative Asset Management | 7.2% | **8** | Targoff (Michael B.) | 2.6% |
| **4** | Highland Capital Management, L.P. | 7.0% | **9** | Vanguard Group, Inc. | 2.6% |
| **5** | Dimensional Fund Advisors, LP | 4.0% | **10** | GSO Capital Partners, L.P. | 2.2% |

**Murphy Oil Corporation (NYSE: MUR)**
During the company's earnings release conference call in February 2012, Murphy Oil CEO David Wood disclosed that management is considering a spin-off of its retail arm from its exploration and production (E&P) assets. The move would follow in the footsteps of other integrated oil breakup announcements in the past year and a half, including Marathon Oil (NYSE: MRO) and ConocoPhillips (NYSE: COP). MUR is essentially the last remaining integrated oil company that continues to own and operate a substantial chain of retail gas stations, as ExxonMobil, BP, and others sold their stations over the previous decade to focus on higher returns from exploration and production. MUR has never appeared interested in following this pattern, but now appears to be rethinking the strategy. Most of MUR's retail stations in the US are located in Wal-Mart Stores Inc. (NYSE: WMT) parking lots.

A decision on a spin-off is expected in the second half of 2012. MUR could also explore the possibility of selling the stations to private equity or local operators. Using a comparable basket of retail gas station operators, which includes The Pantry Inc. (NASDAQ: PTRY), Susser Holdings Corporation (NASDAQ: SUSS), and Casey's General Stores Inc. (NASDAQ: CASY), one might reach an enterprise value of about $2.5 billion for the retail arm of MUR. However, it should be noted that MUR stations based near Wal-Marts typically sell gasoline only and thus miss out on the more steady margins from food sales.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | T. Rowe Price | 8.6% | **6** | Orbis Holdings | 2.8% |
| **2** | Capital World Investors | 4.6% | **7** | Franklin Resources | 2.7% |
| **3** | Vanguard Group | 4.5% | **8** | BlackRock Institutional Trust | 2.6% |
| **4** | State Street | 4.1% | **9** | Invesco | 2.3% |
| **5** | BancorpSouth | 3.9% | **10** | Aronson, Johnson & Ortiz | 1.8% |

**News Corp. (NASDAQ: NWSA)**
***In a May 2012 interview, Rupert Murdoch denied interest in a spin-off of UK publishing assets.*** With News Corp. facing mounting scrutiny over alleged phone hacking by reporters at its UK-based newspapers and mired in scandal, speculation swirled in multiple news reports that NWS was considering separating the businesses facing investigation. Through the first half of FY2012, the company's publishing segment generated operating income of $328 million, down more than 40% from the year-earlier period, due in part to the closing of *The News of the World* as well as lower advertising rates at other publications. NWSA also took an $87 million charge related to the ongoing investigation of the growing scandal. Other parts of the company continue to expand. Cable programming, which includes Fox News and the FX Network, increased operating income nearly 19% year over year to almost $1.7 billion in the first half of FY2012.

The publishing segment accounted for 11% of operating income (excluding charges) and about 25% of revenue in 1H FY2012. Segment EBITDA totaled $541 million in that period. If one annualized 1H 2012 EBITDA and applied a 4.6x multiple (in line with a group of large newspaper publishers), an enterprise value for the segment of around $5 billion could be reached. However, a discount to the group could be required near term, given the uncertainty regarding the outcome of the ongoing investigation. NWSA has an enterprise value of about $52 billion as of late May 2012.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | Capital Research Global Investors | 7.7% | **6** | Franklin Resources | 3.7% |
| **2** | Dodge & Cox | 6.8% | **7** | BlackRock Institutional Trust | 3.4% |
| **3** | Vanguard Group | 5.2% | **8** | Children's Investment Fund | 3.1% |
| **4** | Yacktman Asset Management | 4.8% | **9** | Janus Capital | 3.0% |
| **5** | State Street | 4.6% | **10** | Highfields Capital | 2.3% |

**PepsiCo Inc. (NYSE: PEP)**
In March 2012, the soft drink maker announced changes to its management team. John Compton, who ran the American Foods division, was promoted to the newly created position of president. Compton could be seen as a likely successor to CEO Indra Nooyi, who has been under pressure from investors to improve the stock's performance. Given the underperformance of

PepsiCo's stock in 2011 compared to chief rival Coca-Cola Company (NYSE: KO), speculation has been swirling in the media that PEP management could consider spinning off the company's fast-growth savory snacks unit. PEP was up less than 2% in 2011 compared to about a 6% rise for KO. Proponents of a separation of the Frito-Lay operations from the beverage business argue that the push to develop new beverages, coupled with the acquisition of the bottling operations, has taken the focus off continued expansion of snack sales, including international growth. In addition, the rapid growth of the snacks business may not be fairly represented in the multiple applied to PEP.

Critics of the idea of a spin-off, including Nooyi, claim that synergies between the two business segments are too valuable. The two segments share end users, distribution points, and marketing plans. Moreover, the larger entity has more leverage with distributors in gaining valuable shelf space. Several valuation methodologies have been put forward to consider whether a separation would unlock shareholder value. According to the October 21, 2011, *Stahl Report*, a sum-of-the-parts valuation based on comparables in the beverage, foods, and international markets would yield a fair value estimate of around $63 per share. According to media reports, other analysts' methodologies have reached a valuation closer to $90 per share post spin-off.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | Vanguard Group Inc. | 4.4% | **6** | Wellington Management | 1.6% |
| **2** | State Street Corporation | 3.9% | **7** | Bank of New York Mellon | 1.5% |
| **3** | BlackRock Institutional Trust | 2.4% | **8** | Northern Trust | 1.4% |
| **4** | Bank of America | 1.9% | **9** | FMR LLC | 1.4% |
| **5** | Capital Research Global Investors | 1.8% | **10** | T. Rowe Price | 1.3% |

**Pfizer Inc. (NYSE: PFE)**

As of early 2012, Pfizer's Board is said to be leaning toward a spin-off rather than a sale of its Animal Health segment, according to various media reports. *The Financial Times* reported in February 2012 that management was strongly considering carving out the business. In April 2012, the company announced a deal to sell its infant nutrition unit to Nestle SA (VX: NESN) for $11.9 billion cash. Animal Health, which generated $4.2 billion in revenue in 2011, up 17% from the previous year, is involved in the development and manufacture of products, including vaccines and diagnostics, to prevent and treat disease in livestock. The animal and infant nutrition segments became a part of Pfizer as a result of the acquisition of Wyeth in 2009.

There also exists speculation that as a result of the aforementioned internal review of its portfolio businesses, Pfizer may decide to divest additional businesses in an effort to focus on the core pharmaceutical division. Some suggest that the departure of the CEO in December 2010 hints at the prospect that Pfizer will seek to become a leaner company through several divestitures. Other pharmaceutical companies are also reportedly considering sales or separations of units. In a March 2012 issue of *Barron's*, an analyst suggested that Novartis AG (NYSE: NVS) consider spinning off its eye-care unit, Alcon, which it acquired in 2010, as a means to lift shareholder value. NVS is also thought to be considering a bid for PFE's Animal Health segment.

**TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | State Street Global Advisors | 3.7% | **6** | T. Rowe Price Associates | 1.5% |
| **2** | Vanguard Group | 3.6% | **7** | Fidelity Management & Research | 1.4% |
| **3** | BlackRock Institutional Trust Company | 3.3% | **8** | Dodge & Cox | 1.3% |
| **4** | Wellington Management Company | 3.2% | **9** | Capital World Investors | 1.3% |
| **5** | AllianceBernstein LP | 1.6% | **10** | State Farm Insurance Companies | 1.0% |

**Republic Airways Holdings, Inc. (NASDAQ: RJET)**

In February 2012, management disclosed efforts to sell the Frontier Airlines division as part of a process to restructure its branded airlines business. Given what appears to be a lack of buyers for the division, a Frontier spin-off could be more likely. Frontier voluntarily filed for Chapter 11 bankruptcy protection in 2008, due in part to high oil prices and an elevated cost structure. Republic won the bidding process for Frontier out of bankruptcy court, and in October 2009 paid $109 million to acquire 100% of Frontier's equity. The original rationale for the acquisition was that, given industry consolidation, there were opportunities to grow Frontier's regional network, which is dominated by Midwest routes from Denver and Milwaukee. Industry consolidation caused large network carriers to consolidate their hubs, which left opportunities for market share gains in smaller markets.

A separation would create two companies with distinct business models. RJET, through a fixed fee model, operates jets for all major legacy carriers on regional routes. This business model limits growth potential but provides fairly stable revenue. It also allows for the pass-through of fuel costs, which may protect margins. Frontier, by contrast, operates as a traditional, branded airline out of Denver and Milwaukee and has had difficulty generating profits, given high costs. It could be argued that value might be unlocked for RJET shareholders, as the Frontier operations are a drag on the current share price given fuel cost exposure and competition in limited routes, resulting in operating losses. A spin-off would improve RJET's profitability, while Frontier might be able to more effectively compete for business or expand into other, less competitive markets.

**TOP 10 SHAREHOLDERS**

| | | | | | |
|---|---|---|---|---|---|
| **1** | Donald Smith & Company | 10.1% | **6** | Vanguard Group | 4.2% |
| **2** | FMR LLC | 8.2% | **7** | BlackRock Institutional Trust | 2.9% |
| **3** | Corsair Capital Management | 7.9% | **8** | Proxima Capital Management | 2.7% |
| **4** | Greenlight Capital | 7.1% | **9** | BlackRock Fund Advisors | 2.2% |
| **5** | Dimensional Fund Advisors | 7.0% | **10** | Royce & Associates | 1.9% |

**Textron Inc. (NYSE: TXT)**

In January 2012, shares of Textron jumped more than 7% in one day following a report on wire service Reuters that management may be weighing the possibility of spinning off one or multiple segments. The company, based in Providence, Rhode Island, has already placed its golf course mortgage business up for sale. According to multiple news reports, management is conducting an internal strategic review but has not hired bankers or advisors. The diversified manufacturer produces Cessna business jets, Bell civil and military helicopters, armored security vehicles, and unmanned aircraft systems. It also manufactures golf carts, turf-care equipment, and wire installation systems. Its commercial finance unit provides loans for the purchase of Cessna jets and Bell helicopters, as well as lawn-care equipment and golf carts. One option would be to consider separating its military equipment segments from its units geared to the manufacture of products for commercial usage.

Following years of growing defense spending, new orders for military helicopters and other large equipment are likely to be under pressure. Meanwhile, TXT could still generate growth for its lawn-care and wire installation systems. Management refused to comment on the Reuters story.

TXT sales increased more than 7% in 2011 to almost $11.3 billion, while segment profit (ex-finance) grew almost 17% to $924 million. Yet profit for the Textron Systems segment, which focuses on defense-related products, sagged 39% year over year to about $141 million (the results include $60 million in charges related to severance costs and write-downs of intangible assets). Industrial segment profit increased more than 25%, while the Cessna segment, which makes Citation aircraft, returned to profitability following a loss in 2010.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | FMR LLC | 10.6% | **6** | UBS Global Asset Management | 2.8% |
| **2** | T. Rowe Price Associates | 9.3% | **7** | BlackRock Institutional Trust | 2.4% |
| **3** | The Vanguard Group | 5.5% | **8** | Goldman Sachs Group | 2.3% |
| **4** | State Street Corporation | 3.4% | **9** | Bank of New York Mellon | 2.2% |
| **5** | Invesco Ltd. | 2.8% | **10** | TCW Group | 2.2% |

**Unit Corporation (NYSE: UNT)**

The company, which operates in three segments—drilling, midstream, and exploration & production (E&P)—could consider simplifying its investment thesis and corporate structure by spinning off or selling one or two of the businesses. The hold-up has likely been whether any of the three pieces would be large enough to spin off to investors. In October 2011, Kinder Morgan (NYSE: KMI) announced it would purchase El Paso (NYSE: EP) while the acquiree was in the process of separating its E&P assets from its pipeline and midstream business. The Williams Companies (NYSE: WMB) has spun off its E&P operations into WPX Energy Inc., a transaction that was completed in December 2011. Both EP and WMB have significantly larger pipeline operations than UNT and, unlike Unit, have publicly traded master limited partnerships (MLP) to drop down assets or sell units to raise new funds for growth.

Based on year-end 2011 proved reserves of 116 MMBoe (million barrels of oil equivalent), up 12% from year-end 2010, one could value UNT's E&P assets, utilizing a peer group of US-based oil and gas producers, at an enterprise value in excess of $1.5 billion. Over the last three years, UNT has focused on development of its more oil-rich plays. Annual production of liquids increased to about 38% of total UNT hydrocarbon production in 2011 from 25% in 2008. The more liquids-rich development could be appealing as a spin-out or takeover candidate. In 2011, the midstream business generated $33.4 million in operating profit before depreciation and amortization, or about 5% of the total company. That piece might be too small to spin off as a standalone without bolt-on acquisitions prior to separation.

**TOP 10 SHAREHOLDERS**

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|---|---|---|---|---|---|
| **1** | Royce & Associates | 14.3% | **6** | State Street | 2.7% |
| **2** | George Kaiser Foundation | 12.6% | **7** | Bank of New York Mellon | 2.6% |
| **3** | FMR LLC | 12.4% | **8** | Franklin Resources | 2.4% |
| **4** | Heartland Advisors | 4.4% | **9** | BlackRock Institutional Trust Company | 2.3% |
| **5** | Vanguard Group | 3.9% | **10** | BlackRock Fund Advisors | 2.1% |