

## Spinoff Trade Shows Resilience in a Desolate Market: ECM Watch

By Drew Singer / Bloomberg News / June 14, 2022

Investment bankers bemoaning the dearth of large stock offerings this year can take comfort from one relatively robust area of the market: the spinoff of units by larger companies.

Tax-free spinoffs are outperforming other newly listed stocks, as well as the broader market, during this year's volatility. That's partly due to a lack of selling pressure from retail investors who've unloaded other new stocks en masse.

Spinoffs that bypassed an initial public offering were largely overlooked by the hoards of new traders who emerged during the pandemic, said Jim Osman, founder of The Edge Consulting Group, a research firm that specializes in spinoffs. They preferred the fast-growing tech companies, IPOs or the infamous meme stocks -- all shares they are now dumping.

"Something like 25 million new investors came to market over the last two years who are holding a lot of stock," Osman said. "In this market collapse, those sort of people are getting out of their names, and I don't think their names were spinoffs. They were Peloton or Amazon or Meta."

Still, the resilience of the market for spinoffs is not good news for all investment bankers. Given that their strength lies in the lack of retail investors in the stocks, the trade is encouraging parent companies to avoid spinning off their units through IPOs in favor of tax-free listings where existing shareholders retain the shares.

For instance, Bausch Health Cos Inc. spinoff Bausch + Lomb Co. is down 24% from its May 5 IPO price.

The Bloomberg US Spin-Off Index, which contains recently spun-off stocks, has lost 21% in 2022. That's less than the 52% decline in the Renaissance IPO ETF -- which tracks recent IPOs -- and the 64% loss by the De-SPAC Index, whose members listed by merging with special purpose acquisition companies. The S&P 500 closed Tuesday down 22% this year.

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