

Spinoffs Heat Up as Companies Seek IPO Alternatives: ECM Watch

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Slow going in the IPO market is fostering an unusually packed calendar of tax-free spinoffs as companies seek to boost value by floating parts of their business.

Fortune Brands Home & Security Inc. climbed 1.5% on Tuesday after its board of directors approved the spinoff of its cabinets business. It's just the latest in a busy stretch for separations that give stockholders shares in a new publicly traded entity without triggering a tax event.

Parent companies often choose segments for spinoffs because they feel they're being underappreciated by the market. The transactions are a useful tool to unlock value as market conditions hinder alternatives like initial public offerings.

Spinoffs currently on the calendar are near an all-time high with close to 40 transactions in progress, according to Jonathan Morgan, lead deals analyst at The Edge Consulting Group.

"Companies are looking to create value in some form or fashion in this market," he said at a special situations conference last week. "They're not doing it through the traditional way of an IPO. Companies in this market aren't going to be willing to sell any of their segments at this time. 'SPAC' is such a dirty word that it's not happening anymore. The fourth option, whether they like it or not, is to announce a spinoff."

In addition, investors are generally rewarding newly spun off firms. The Bloomberg US Spin-Off Index, which tracks recent transactions, is outperforming the S&P 500 Index this year.

The pickup in these types of deals contrasts with this year's slowdown in IPOs. New York public offerings have raised \$11 billion in 2022, according to data compiled by Bloomberg that excludes special purpose acquisition companies. That's down 94% from the same period in 2021.

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