

RECENT SPINOFFS: ADDITIONAL DATA

This month, instead of the brief “recent and imminent” table on the first page page, each current situation instead appears on a separate page, in greater detail, under the heading “Spinoff Profile.” Henceforth, every US spinoff will receive one such profile, so that the reader can collect a comprehensive library of data on all of them. These begin on the next page.

Each spinoff profile’s financial statements may include adjustments from the company’s own corporate filings, based on our judgment. Such differences are noted. In addition, we approximate the parent company’s ex-spinoff financial statements by subtracting them from the spinoff’s pro forma financials. The latter in particular can be useful for the following:

1. Comparing the returns on employed capital of the spinoff and its parent. This can reveal if the reason for separation was to free a high-ROI business from a low one. Since the parent does not file public ex-spin financial statements until several weeks after the breakup, this permits easier exploitation of opportunities in the parent companies in particular.
2. Comparing leverage and interest coverage, to reveal whether the spinoff was effected to deleverage one entity or the other.
3. Estimating the growth and growth stability of each independent firm.

In using the spinoff profiles that begin on the next page, note the distinction between “pro forma” and “historical” financial statements. Pro forma statements are derived from the company’s best estimate of the spinoff’s financial statements as they would appear if the company were independent. Historical statements are derived from the parent company’s internal accounting pre-spinoff, and thus will tend to underestimate the true general & administrative cost load for the independent spinoff. Historical statements should, however, accurately display the growth and stability of revenue and earnings.

We have added all the extra detail for two reasons. First, it is the most popular request from readers. Second, it may help the reader to quickly evaluate the ex-spin parent in the weeks before independent financial statements have been filed. During this period, the parent can be even more opaque to markets than the spinoff.

This has grown more important in the past year, as more companies have used spinoffs as a deleveraging vehicle. Basically, the spinoff issues as much debt as possible, and pays all proceeds to the parent. The parent receives a rating upgrade, while the spinoff is set adrift, barely afloat, a ghost ship among corporate vessels, a plaintive moaning echoing mysteriously from above its tattered sails.

The most extreme case was executed by Barry Diller in August: IAC/InterActiveCorp (IACI) is off just 5% since we recommended it, while its four spinoffs, TKTM, HSNI, IILG and TREE, are down 73%, 49%, 60% and 66% -- generally on fears about debt.

Today, though it is almost impossible to issue new bonds, companies can employ the same tactic using revolving credit lines. The additional financial data about the parent may, we hope, make it easy to see management intentions in the numbers.

Our monthly stock selection appears, as usual, on the last page.

SPINOFF NEWS

The spinoff cancellation rate, which increased last month for lack of debt financing, has returned almost to normal (see table, right). We anticipate a flood of breakups if and when bond markets normalize.

Last Friday, **Discover Financial Services** (DFS) won approval to become a bank holding company. For more on this, see page 4.

Gecina (GFCP.PA) suspended plans to spin off its interest in **Metrovacesa** (MVC.MC), on the grounds that MVC’s receivership in December constitutes a change of control, permitting cancellation under their spinoff agreement. MVC disputes this. Gecina’s common sense argument resonates, so we presume the deal is off.

Nelson Peltz has doubled his position in **Dr Pepper Snapple** (DPS), and is agitating for further streamlining. This is very good news -- for more on that, see the last page.

Parent	Spinoff	Status update
Qantas	Frequent flyer division	reaffirmed
Time Warner	Time Warner Cable	reaffirmed
Phoenix Companies	Virtus Investment Partners	reaffirmed
Korab	Uranium Australia	reaffirmed
ArvinMeritor	Arvin Innovation	reaffirmed
ACE Aviation Hldgs	Aveos	reaffirmed
ACE Aviation Hldgs	Air Canada	reaffirmed
CITIC Resources	CITIC Dameng	indefinitely delayed
Biocon	Syngene	indefinitely delayed
Enzon Pharmaceuticals	Evivrus	cancelled
Infineon	Qimonda	cancelled
MetalCORP	PreciousMetals Explorations	cancelled
General Electric	Consumer & industrial unit	cancelled
Gecina	Metrovacesa	disputed

SPINOFF PROFILE

Clearwater Paper, Potlatch

Event details	
Type	distribution
Already listed before spinoff	no
Parent	Potlatch
Headquarters	USA
Primary listing	USA
Record date	12/9/08
Distribution date	12/16/08
Distribution ratio	3.5 to 1
Spin cap / Parent cap	0.2
CEO/chairman joins spinoff	no
Wide analyst coverage	no

Potlatch (PCH) this week spun off its pulp operations as **Clearwater Paper (CLW)**, transforming the parent into a pure-play real estate investment trust. Potlatch converted to an REIT in 2006, but had retained its pulp operations until now.

CLW was unable to secure new debt for the breakup. However, it was able to draw on existing credit lines, paying a dividend to the parent, to accomplish the same effect.

Insiders bought Potlatch in the two months prior to the spinoff, effectively buying both firms.

Notes: (1) Balance sheet is dated 9/30/08. (2) Includes \$50m paid by Clearwater to Potlatch by drawing on subsidiary's existing credit line -- this transfer is mentioned in the notes, but we believe including it in the adjusted balance sheet presents a more accurate overall picture of the situation.

Benefit: Clearwater prices and capital costs vary widely, at a time when debt is hard to secure. Potlatch thus reduces credit risk by getting rid of Clearwater, and increases return on employed capital by reducing capital intensiveness.

Risk: Potlatch is now paying out more in dividends (yielding over 8% at recent prices) than it earned in 2007. Historically, this is not always imprudent for REITs -- real estate is typically worth significantly more than its book value, so there are avenues (e.g. borrowing or asset sales) to fund the payouts. Under today's circumstances, it might be less than prudent; still, if the worst case is a 20% cut in the dividend, then PCH would still yield over 6%.

Bottom line: both fairly valued, decently financed, but not screaming bargains.

Clearwater historical (expenses allocated, do not accurately reflect independent performance)

amounts in millions

	2007	2006	2005	2004	2003
Revenue	1173	1107	983	900	820
EBIT	53	47	-2	4	-13
Net income	26	21	-8	-5	-15
Working capital	128	167	187	183	144

Potlatch historical, ex-Clearwater (Potlatch actual minus Clearwater historical)

amounts in millions

	2007	2006	2005	2004	2003
Revenue	481	492	513	456	372
EBIT	34	61	55	21	0
Net income	67	135	44	20	11
Working capital	450	411	518	489	326

Pro Forma Financials, Taking Effect of Spinoff

amounts in millions, except ratios and per share amounts

	Clearwater	Potlatch
Year ending	12/31/07	12/31/07
Revenue	1173	481
EBIT	51	64
Interest (expense)	-13	-15
Tax (expense)	-14	8
Net income	25	69
Cash and equivalents (1)	0	62
Receivables	101	31
Inventory	145	28
Other current assets	13	11
Total current assets	259	131
Property, plant & equipment	395	653
Intangibles	0	0
Other assets	41	200
Total assets	695	984
Accounts payable, accrued exp.	129	58
Other current liabilities	8	106
Total current liabilities	137	164
Long-term debt (2)	50	321
Non-recourse/related-party debt	100	
Other liabilities	200	120
Total liabilities	488	605
Equity	207	379
Tangible Equity	207	379
Shares outstanding	11.3	39.3
EBIT ret. on employed capital	10%	12%
Debt to tangible equity	0.7	0.8
Current ratio	1.9	0.8
Interest coverage ratio	3.9	4.2
Recent price, \$	17.25	26.09
Market capitalization, \$m	195	1,025
P/E	7.9	14.9
P/Sales	0.2	2.1
P/Tangible book value	0.9	2.7
EBIT yield on total capital	15%	5%
Major index	none	none
Recent insider trading	none	buying
Closely held	no	no

SPINOFF PROFILE

Facet Biotech, PDL BioPharma

Event details	
Type	distribution
Already listed before spinoff	no
Parent	PDL BioPharma
Headquarters	USA
Primary listing	USA
Record date	12/5/08
Distribution date	12/18/08 (est)
Distribution ratio	1 : 5
Spin cap / Parent cap	0.3
CEO/chairman joins spinoff	no
Wide analyst coverage	no

PDL BioPharma (PDLI) has spun off **Facet Biotech (FACT)**, its R&D operations, leaving the parent as a pure patent licensor. PDLI recently increased its 2008 earnings guidance to over \$270m.

This month, the parent's offices moved from Redwood City, California to Incline Village, Nevada, a resort community near Lake Tahoe. News media implied personal motives for the move, gleefully noting that the CEO already lived there. That may well be true, but the articles seem to miss two legitimate points: first, PDLI is now an intellectual property

licensor with no need for research staff; second, for a company desiring to avoid the high rent and corporate tax in California, the Reno/Tahoe area is the shortest possible move from Redwood City. Thus the change of venue may be as beneficial to shareholder value as it is to the CEO's skiing schedule.

Notes: (1) Balance sheet is dated 9/30/08.

Risks: First, key US patents expire in six years. Second, PDLI's \$500m in debt is convertible, and management hasn't yet disclosed its new conversion ratio, which was reset concurrently with the spinoff.

Benefit: With high and rising revenue, falling operating expenses, falling taxes, and a price below 5 times earnings, we conclude PDLI is probably cheap. At the current price, and even without growth, it appears able to buy back all its debt and still earn enough between now and patent expiration to justify today's price.

Bottom line: Facet is not our cup of tea, but parent PDLI is worth a look.

Facet historical (expenses allocated, do not accurately reflect independent performance)					
amounts in millions					
	2007	2006	2005	2004	2003
Revenue	26.7	51.4	29.9	11.3	10.3
EBIT	-226	-187	-168	-139	-182
Net income	-227	-187	-166	-137	-181
Working capital	-19	-51.4	-16.7	-29.8	-27.1

PDL BioPharma historical, ex-Facet (PDL actual minus Facet historical)					
amounts in millions					
	2007	2006	2005	2004	2003
Revenue	232	-300	129	85	56
EBIT	201	173	119	81	52
Net income	206	57	0	84	51
Working capital	527	519	543	442	475

Pro Forma Financials, Taking Effect of Spinoff		
amounts in millions, except ratios and per share amounts		
	Facet	PDL Bio
Year ending	12/31/07	12/31/07
Revenue	27	232
EBIT	-227	202
Interest (expense)	-1	-13
Tax and other (expense)	0	17
Net income	-227	206
Cash and equivalents (1)	409	146
Receivables		
Inventory		
Other current assets	13	3
Total current assets	422	149
Property, plant & equipment	125	3
Intangibles	8	0
Other assets	5	6
Total assets	560	158
Accounts payable, accrued exp.	7	48
Other current liabilities	13	-0
Total current liabilities	20	48
Long-term debt		500
Non-recourse/related-party debt		
Other liabilities	82	2
Total liabilities	102	550
Equity	458	-392
Tangible Equity	450	-392
Shares outstanding	23.9	152.8
EBIT ret. on employed capital	neg emp cap	neg emp cap
Debt to tangible equity	0.0	negative
Current ratio	20.7	3.1
Interest coverage ratio	negative	15.4
Recent price, \$	13	6.75
Market capitalization, \$m	311	1,031
P/E	negative	5.0
P/Sales	11.6	4.4
P/Tangible book value	0.7	-2.6
EBIT yield on total capital	-73%	13%
Major index	none	none
Recent insider trading	none	selling
Closely held	no	no

UPDATE: DISCOVER FINANCIAL SERVICES

On December 19, **Discover Financial Services** (DFS) won approval to become a bank holding company. DFS was also recently awarded an anti-trust judgment against VISA/Mastercard. Between now and 12/31/09, net of obligations due to former parent Morgan Stanley, DFS will receive about \$1.45b -- about \$3 cash per share, or over 30% of share price.

These two changes would seem to reduce balance sheet risk at Discover: the cash judgment is almost as large as their outstanding long-term debt, and the bank conversion lets them pile bad assets onto our hapless federal government.

DFS trades at a bit over 5 times trailing earnings, or 6 times earnings annualized from most recent quarter. The company is still thought to have higher credit quality and more efficient operations than its competitors. This looks appealing.

SUEZ ENVIRONNEMENT

French water and waste management spinoff **Suez Environnement** (SEVI.PA) now has a Pink Sheets market in the US as SZEVF. The company has stable cash flow and is using it for acquisitions in the down market; however, even after a 30% price decline since it first listed in June, the company still trades at over 15 times net earnings. Hardly cheap in these times. At a lower price, it might be very interesting, because it offers both stability and a dollar hedge (revenues are globally diversified, but exclude the U.S.).

SPINOFF INVESTMENT PERFORMANCE

"All Spinoffs" at right includes U.S. spinoffs listed from June 15, 2005 to June 15, 2008 (the latest date for which a 6-month return could be compiled). "Spinoff & Reorg Selections" includes each *Spinoff & Reorg* recommendation (last page of each issue) over the same period. Results show the geometric mean of 6-month returns for each security.

Our June pick, **Lorillard** (LO), is off by 17%, outperforming the S&P by 17%.

Mean 6-month return, All Spinoffs June 2005 to present	All Spinoffs	Spinoff & Reorg Selections
Absolute	0.7%	1.3%
S&P-relative	1.2%	3.8%
Standard deviation	33%	29%

SPINOFF CALENDAR

Pou Sheng Int'l (3813.HK)	Yue Yuen Industrial (0551.HK)	IPO	Hong Kong	06/06/08	\$500m - \$2b
Telmex Internacional (TII)	Telmex (TELMEXA.MX)	Distrib	Mexico	06/09/08	> \$2b
Lorillard (LO)	Loews Corp (LTR)	Exchange	USA	06/09/08	> \$2b
Argo	Absolute Capital (ACMH.L)	Distrib	UK	06/16/08	
Scripps Networks Interactive (SNI)	EW Scripps (SSP)	Distrib	USA	06/16/08	> \$2b
* PCI Biotech	Photocure (PHO.OL)	IPO/Distrib	Norway	06/18/08	< \$100m
* CPEX Pharmaceuticals (CPEX)	Bentley Pharmaceuticals (BNT)	Distrib	USA	06/20/08	< \$100m
Lender Processing Services Inc (LPS)	Fidelity National Information Svs (FIS)	Distrib	USA	06/24/08	\$500m - \$2b
Ramada Investimentos	Altri (ALSS.LS)	Spinoff	Portugal	Jun-2008	\$100m - \$500m
Celera	Applera (CRA)	Exchange	USA	07/01/08	\$500m - \$2b
* BNK Petroleum (BKX.TO)	Bankers Petroleum (BNK.TO)	Distrib	Canada	07/14/08	< \$100m
Suez Environnement	Suez (SZE)	IPO/Distrib	France	07/22/08	> \$2b
JBT (JBT)	FMC Technologies (FTI)	Distrib	USA	07/22/08	\$500m - \$2b
* DMRC	Digimarc (DMRC)	Distrib	USA	08/01/08	\$100m - \$500m
Ralcorp (RAH)	Kraft (KFT)	Exchange	USA	08/04/08	\$500m - \$2b
* iBioPharma (IBPM)	Integrated BioPharma (INBP)	Distrib	USA	08/04/08	< \$100m
Lumina Copper (LCC.TO)	Teck Cominco (TCK.TO)	Spinoff	Canada	08/05/08	< \$100m
* Eurogas International	Eurogas (EUG.TO)	Distrib	Canada	08/05/08	< \$100m
HSN (HSNI)	IAC/Interactive Corp (IAC)	Distrib	USA	08/11/08	> \$2b
Ticketmaster (TKTM)	IAC/Interactive Corp (IAC)	Distrib	USA	08/11/08	> \$2b
Tree.com (TREE)	IAC/Interactive Corp (IAC)	Distrib	USA	08/11/08	\$500m - \$2b

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Interval Leisure Group (IILG)	IAC/Interactive Corp (IAC)	Distrib	USA	08/11/08	\$500m - \$2b
* ASAP Athletics	Americas Learning Centers (ALRN.OB)	Distrib	USA	08/15/08	< \$100m
* Treasury Metals (TML.TO)	Laramide Resources (LAM.TO)	Distrib	China	08/19/08	< \$100m
Virgin Blue Holdings (VBA.AX)	Toll Holding (TOL.AX)	Distrib	Australia	08/22/08	\$500m - \$2b
* Buru Energy (BRU.AX)	ARC Energy (ARC.AX)	Distrib	Australia	08/25/08	< \$100m
* Northrock Resources	Rockgate Capital (RGT)	Distrib	USA	08/26/08	< \$100m
Adcock Ingram (AIP.J)	Tiger Brands (TBS.J, TBLMY.PK)	Distrib	S. Africa	08/29/08	\$500m - \$2b
Eichhof Getranke	Eichhof (EIN.S)	Distrib	Switzerland	08/29/08	\$100m - \$500m
* Caliburn Resources (CRI.AX)	Avalon Resources (AVI.AX)	IPO	Australia	09/11/08	< \$100m
* Access Versalign	Relm Holdings (RELM.PK)	Distrib	USA	09/15/08	< \$100m
Mastech Holdings (MHH)	iGate (IGTE)	Distrib	USA	09/16/08	< \$100m
SunPower (SPWR)	Cypress Semiconductor (CY)	Distrib	USA	09/17/08	> \$2b
Ascent Media (ASCMA)	Discovery Holding Co (DISCA)	Distrib	USA	09/17/08	\$500m - \$2b
* Pelangio Exploration	Pelangio Mines Inc (PLG.TO)	Distrib	Canada	Sep-2008	\$100m - \$500m
REI Six Ten Retail	REI Agro Ltd (532106.BO)	Distrib	India	10/04/08	< \$100m
Reinet Investments SCA	Cie Financiere Richemont (CFR.VTX)	Distrib	Switz.	10/21/08	
Brink's Home Security Holdings (CFL)	Brink's Company (BCO)	Distrib	USA	10/21/08	\$500m - \$2b
WPT Enterprises (WPTE)	Lakes Entertainment (LACO)	Distrib	USA	10/24/08	< \$100m
British American Tobacco (BTI.A)	Cie Financiere Richemont (CFR.VTX)	Distrib	Switz.	10/29/08	\$500m - \$2b
* Ospol	Biolin (BLINF)	IPO/Distrib	Sweden	11/17/08	< \$100m
Cloetta AB	Cloetta Fazer (CFAb.ST)	Distrib	Sweden	11/28/08	\$100m - \$500m
Loomis AB (LOOM B.OMX)	Securitas AB (SECUB.ST)	Distrib	Sweden	12/08/08	\$100m - \$500m
Clearwater Paper (CLW)	Potlatch (PCH)	Distrib	USA	12/09/08	\$500m - \$2b
* Facet Biotech (FACT)	PDL BioPharma (PDLI)	Distrib	USA	12/10/08	\$100m - \$500m
Mold-Tek Plastics Ltd	Mold-Tek Technologies Ltd (526263.BO)	TBA	India	12/11/08	< \$100m
Virtus Investment Partners (VRTS)	Phoenix Companies (PNX)	Distrib	USA	12/22/08	< \$100m
Non-media business	Compagnie Industriali Riunite SpA (CIRX.MI)	Distrib	Italy	Jan-2009	
Time Warner Cable (TWC)	Time Warner (TWX)	Distrib	USA	Jan-2009	> \$2b
Samsung Digital Imaging	Samsung Techwin (012450.KS)	Distrib	South Korea	02/01/09	> \$2b
Air Canada (AC-A.TO)	ACE Aviation Holdings (ACE-B.TO)	Distrib	Canada	Feb-2009	> \$2b
Aveos	ACE Aviation Holdings (ACE.TO)	TBA	Canada	Feb-2009	\$500m - \$2b
Set-top box division	Skyworth Digital Hldgs (SWDHF)	IPO	Hong Kong	Q1 2009	
Carnation Nutra Analogue Foods (CNAF.BO)	Cadila (532321.BO)	Merger/Distri	India	Q1 2009	< \$100m
Banca Fideuram	Intesa Sanpaolo (ISNPY.PK)	TBA	Italy	Q1 2009	
CW International	Cable & Wireless (CW.L)	Distrib	UK	Q1 2009	> \$2b
F&C Asset Management (FCAM.L)	Friends Provident (FPL)	Distrib	UK	Q1 2009	\$500m - \$2b
Walter Investment Management (WAC)	Walter Industries (WLT)	Distrib	USA	Q1 2009	\$100m - \$500m
* Uranium Australia	Korab	Distrib	Australia	Q1 2009	< \$100m
* Iventa	Commerce Planet (CPNE)	Distrib	USA	Q1 2009	< \$100m
Welspun Global Brands	Welspun India (514162.BO)	Distrib	India	04/01/09	\$100m - \$500m
Welspun Investments	Welspun India (514162.BO)	Distrib	India	04/01/09	\$100m - \$500m
Industrial materials	LG Chem (051910.KS)	Distrib	South Korea	04/01/09	
* News and other non-entertainment	New Delhi Television - NDTV (532529.BO)	Distrib	India	04/01/09	< \$100m
Arvin Innovation (ARVI)	ArvinMeritor (ARM)	Spinoff	USA	May-2009	\$500m - \$2b
Frequent flyer program	Qantas (QAN.AX, QUBSF.PK)	IPO	Australia	Q2 2009	\$500m - \$2b
Mead Johnson (MJN)	Bristol Myers Squibb (BMY)	IPO	USA	Q2 2009	\$500m - \$2b
Clinical and medical products	Cardinal Health (CAH)	Distrib	USA	Q2 2009	
Liberty Entertainment	Liberty Media (LMDIA)	Distrib	USA	Q2 2009	> \$2b
Ocwen Solutions	Ocwen Financial (OCN)	Distrib	USA	Q2 2009	
Magna Entertainment (MECA)	MI Developments (MIM)	Distrib	USA	Q4 2009	< \$100m
Reliance Unicom	Adlabs Films (ADLF.BO)	Distrib	India	2009	< \$100m
Enel Green Power	Enel SpA (ENEL.IT, ENSTY)	IPO	Italy	2009	> \$2b
Real estate assets	Grupo Carso (GCARSOA1.MX)	Distrib	Mexico	2009	
Petroleum services	AGR Group ASA (AGR.OL)	Distrib	Norway	2009	< \$100m

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Vodacom JV with Vodafone	Telkom (TKG)	Distrib	S. Africa	2009	> \$2b
Credit card division	Kookmin Bank (060000.KS)	TBD	South Korea	2009	
FTI Technology	FTI Consulting (FCN)	IPO	USA	2009	
NiSource Energy Partners (NIA)	NiSource Inc (NI)	IPO	USA	2009	\$500m - \$2b
Compressco Master LP	Tetra Technologies Inc (TTI)	IPO	USA	2009	< \$100m
* DT Cinemas	DLF (532868.BO)	IPO	India	2009	< \$100m
* Solar cells	Emcore (EMKR)	IPO	USA	2009	< \$100m
* Myriad Pharmaceuticals (MYGN)	Myriad Genetics (MGX)	Distrib	USA	2009	< \$100m
StarOne - fixed-line	Indosat (IIT)	Distrib	Indonesia	2010	\$100m - \$500m
Mileage Plus	United Airlines (UAL)	Distrib	USA	TBA	
Home products division	Orica (ORI.AX)	Distrib	Australia	TBA	
Insurance unit	Suncorp-Metway (SUN.AX)	Distrib	Australia	TBA	
BCH Ltd	BrazAlta Resources (BRX.V)	Distrib	Canada	TBA	
Cenovus	EnCana (ECA)	Spinoff	Canada	TBA	> \$2b
Real estate assets	UniCredit SpA (UCG.MI)	TBA	Italy	TBA	> \$2b
UMW Oil & Gas Bhd	UMW Holdings (UMWS.KL)	IPO/Distrib	Malaysia	TBA	\$100m - \$500m
Chorus (copper network)	Telecom Corp of New Zealand (NZT)	Splitoff	NZ	TBA	> \$2b
Telecom Wholesale	Telecom Corp of New Zealand (NZT)	Splitoff	NZ	TBA	
San Miguel Packaging Specialists	San Miguel Corp (SMC.PS)	IPO	Philippines	TBA	
DLF Assets	DLF (532868.BO)	IPO	Singapore	TBA	> \$2b
Artio Global Investors (ART)	Julius Baer (BAER.VX)	IPO	Switz./USA	TBA	> \$2b
Hammer Retex Group	Industrieholding Cham (INDN.SWX)	Distrib	UK	TBA	\$100m - \$500m
TippingPoint Security	3Com (COMS)	IPO	USA	TBA	\$500m - \$2b
Abraxas Energy Partners LP (AXLP)	Abraxas Petroleum (ABP)	IPO	USA	TBA	\$500m - \$2b
Oil & gas properties	Berry Petroleum (BRY)	IPO	USA	TBA	\$100m - \$500m
Midstream gas gathering	Chesapeake Energy (CHK)	TBA	USA	TBA	\$500m - \$2b
Contango Energy	Contango Oil & Gas (MCF)	Distrib	USA	TBA	
Enexus Energy	Entergy (ETR)	Distrib	USA	TBA	> \$2b
First American Financial	First American Corp (FAF)	Distrib	USA	TBA	
Physio-Control	Medtronic (MDT)	Distrib	USA	TBA	\$500m - \$2b
Handset division	Motorola (MOT)	Distrib	USA	TBA	> \$2b
Cloud Peak Energy	Rio Tinto (RTP)	IPO	USA	TBA	> \$2b

MARKET LEGEND

AX Australia	J Johannesburg	NS National (India)	PK Pink sheets	TO Toronto
BO Bombay	KL Kuala Lumpur	NZ New Zealand	RTS Russia	TW Taiwan
BR Brussels	L London	O OTC	SG Singapore	V Vancouver
DL Delhi	LS Lisbon	OB OTC Bulletin Board	ST Stockholm	
HK Hong Kong	none NYSE/Nasdaq/Amex	PA Paris	TA Tel Aviv	

ABOUT THE CALENDAR

Spinoffs are listed only if (i) management announces they are certain to proceed; and (ii) a market will be made promptly. "Date" means record date for distributions, listing date for IPOs, or either for Indian spinoffs. "Possible" spinoffs are not included. "Exchange" transactions offer holders the option to trade shares in the parent for shares in the spinoff.

Promotional stocks are marked with an asterisk ("*") to be ruled out quickly by traditional value investors. We identify such firms by low current revenue; self-promotion via self-issued press releases not picked up by news agencies; spinoff announcements without prompt regulatory filings; claims of valuable assets in remote locations (Arctic Canada and interior Africa are time-honored favorites); high management pay relative to capitalization; and/or headquarters disproportionately located in Vancouver, Miami or southern California.

Please send suggestions to subscribe@gemfinder.com. Popular requests will be incorporated.

SPINOFF

STRUCTURE

SITUATION

Cadbury (CBRY) hesitated, and was lost. After publicly dithering for years over the fate of its American drinks group, CBRY belatedly tried an auction, just as the bottom fell out of private equity. When no buyers emerged, CBRY instead spun the unit off as **Dr Pepper Snapple** (DPS).

ANALYSIS

We panned DPS last spring, but two big changes have emerged since: lower price and one particular activist shareholder.

DPS is off 37% since listing in April, though it has recovered 13% this month from its all-time low. Meanwhile, also this month, Nelson Peltz disclosed that his position in DPS (through Trian Partners) has increased to over 7%.

Peltz has been involved in this business before. In 1997, he purchased failing Snapple from Quaker Oats for \$300m, turned it around, and resold to Cadbury 3 years later for \$1.45 billion -- about a 70% annualized return.

In 2007, Peltz bought 3% of Cadbury and successfully agitated for the DPS spinoff. This month, he is buying DPS, and reportedly pressing to get rid of its bottler. Good idea -- the bottler is capital-intensive and lower-ROI than the brands. Peltz has reason for urgency: he holds DPS swaps, priced 40% above current market, which begin to expire next June.

Peltz is well positioned and incentivized to catalyze what we have previously described as the best outcome for DPS: the sale of its various pieces. Presumably he has at least some special influence with management, since their current independence resulted directly from his influence at Cadbury.

OWNERSHIP DISCLOSURE

Author does not own DPS.

Dr Pepper Snapple

Company Information

COMPANY

Dr Pepper Snapple Group (DPS) consists of its eponymous two strong beverage brands, as well as such faded names as 7UP, A&W, Sunkist, Hawaiian Punch, RC Cola and Diet Rite. Sales, but not earnings, grew rapidly in recent years, as DPS bought a bottling company, presumably to increase distribution control.

Even with the bottler, operating return on employed capital is above 70%.

Mass market brands like Dr Pepper typically confer both inflation resistance and export potential. As this author is bit of a perma-bear on the dollar, its recent strength, which caused DPS to see lower foreign revenue (mainly Mexico), helps in our view to create a buying opportunity ahead of the next currency swoon.

Moreover, DPS is a likely beneficiary of falling gasoline prices. Their recent halving, inconsequential to the personal lives of Manhattan analysts, yields a big windfall for the typical commuter household -- as much as 10% of after-tax income. The "little luxuries" -- premium coffee, soda et al -- likely gain on this change. (In support of this assertion, Starbucks barristas inform your intrepid reporter that business picked up unexpectedly in December; SBUX management plans to extend store hours in increments, starting next month. We still don't like SBUX because it is expensive; this merely argues that the small luxuries have perhaps become a bit more affordable.)

VALUATION

As usual, we are interested in DPS as a value investment with a free speculation.

DPS is harder to value than its competitors, because it lacks focus. Drinks brand or bottler? Both. Soda or juice? Both. Drinks or applesauce? Again, both. A breakup could rapidly, dramatically affect price, and forces are now aligned for this to happen.

If Peltz has his way, the company will likely move in that direction -- for example, by selling the bottler to an independent bottler, Dr. Pepper to Coke or Pepsi, Mott's (applesauce and juice) to a major food brand, and so on. The major drink brands have earnings multiples at least 50% higher than DPS, because they are not perceived as bottlers -- thus, improved focus alone could have dramatic effect.

What is the cost of this speculation? Low or zero. DPS closed Monday at 17.06, less than 10 times earnings, and is still growing slowly. It owns half a dozen well-known beverage brands. It is a dollar hedge, due to foreign sales primarily in Mexico. Thus, if Peltz and reorganization prospects disappear, we are left with a fairly priced, strongly branded, inflation-resistant consumer products company with export potential.

RISKS

Tangible equity is negative, so DPS common stock will tank if the company flirts with debt default. But today, DPS senior bonds yield only around 7%, implying, in today's risk-averse markets, quite low perceived default risk. Interest coverage is more than 4 to 1, and concern is further mitigated by a conservative estimate of the value of key brands. By net contribution, and making a few guesses at how operating income breaks down by product, one might argue Dr Pepper alone is worth as much as \$3 billion in the hands of Coke or Pepsi at their current earnings multiples -- about equal to the outstanding debt of DPS.