

RECENT AND IMMINENT

In the table below are annual financial results, ratios (where available) and spinoff dates for **Metavante** (MV), **APP Pharmaceuticals** (APPX), **MSCI** (MXB), and **Sinotrans Shipping** (0368.HK). As always, most of this data was collected directly from the SEC, its Hong Kong equivalent, and/or the firms themselves, as the private data services don't accurately follow spinoffs until some time after listing.

	Metavante MV	APP Pharmaceuticals APPX	MSCI MXB	Sinotrans Shipping 0368.HK
Record date	10/31/07	11/13/07	11/15/07 est	11/23/07
Distribution ratio	1 : 3	1 : 0.25	IPO	IPO
Market capitalization of spinoff	\$2.5b	see note	\$1.6b est	\$3.9b est
Market cap ratio, spinoff to parent, post-spinoff, est.	0.29	see note	0.03	see note
Parent symbol	MI	ABII	MS	0598.HK
Parent major index	S&P500	none	S&P 500	none
Spinoff major index	none	none	none	none
Shares outstanding post-spinoff	111m	160m	100m	4.00b
Revenue	\$1.5b	\$581m	\$311m	\$248m
EBIT	\$272m	\$79m	\$83m	\$119m
Earnings (loss) to common	\$101m	\$31m	\$40m	\$119m
EPS, last fiscal year, current shares out (loss)	\$0.91	\$0.19	\$0.40	\$0.03
P/E ratio	25	see note	40	33
Long-term debt	\$1.7b	\$1.2b	\$425m	\$33m
Substantial insider buying at market price	yes	no	no	
Parent chairman/CEO moves to spinoff	yes	both	no	
Widespread analyst coverage	no	no	yes	

Among the US-traded new spinoffs above, Metavante looks most interesting, but too expensive for our taste. More on page 3.

Abraxis (New) is spinning off from Abraxis. The parent will rename itself APP Pharmaceuticals, and shareholders will receive one share of New Abraxis for every four of the parent. Since New Abraxis is not our style (growth story, big losses), we have presented the parent above as if it were the spinoff. Capitalization is not estimated, first because the parent trades at an indefensible 64 times earnings, and second because the two companies and their price multiples are likely to be too different to permit a reasonable forecast. The CEO of Abraxis will head both companies post-spinoff.

The Sinotrans Shipping prospectus reports financials in U.S. dollars, but share offering prices in HK dollars. We have standardized on U.S. dollars at last Friday's closing exchange rate for comparative purposes above. Sinotrans Shipping's offering valuation appears to exceed the market capitalization of its parent, Sinotrans Ltd. This assertion is based on the half-yearly report of Sinotrans Ltd., released September 6, which states 4.25b shares outstanding, implying a US\$2.5b market capitalization. (Reuters incorrectly reports the parent's market cap at less than half that.) Many of the assets going into Sinotrans Shipping were only recently assigned to the parent by the government of China, in return for new debt. Hence it's possible -- pending a more careful look at the most recently published capital structure -- that this really is a buying opportunity for the parent. Sinotrans has a U.S. symbol (SNOTF.PK), but no market maker.

SPINOFF & REORG NEWS

Echostar Communications (DISH) will spin off all holdings except DISH Network to shareholders as **Echostar Holding Corporation**. The spinoff will include infrastructure, technology, and loss-making growth story Sling Media. With an EBIT return on employed capital

under 5%, the spinoff will not be interesting unless extremely cheap, but the parent, to be renamed DISH Network Corporation, could be a worthwhile buyout speculation at the right price. This is worth revisiting after the separation is complete.

3Com's (COMS) carve-out of TippingPoint Security was apparently scuttled last month when 3Com agreed to be acquired by Huawei and Bain Capital. However, several congressmen have moved to block the sale, arguing that China (which already assembles most network security hardware sold in the US) would somehow gain access to vital secrets. If 3Com, a networking also-ran for more than a decade, is a vault of supposed US technological prowess, then it follows Congress should rush to lock down equally critical stockpiles, such as spare hood ornaments for '59 Coupe de Villes. At any rate, the situation appears to put TippingPoint back on the spinoff table.

Norilsk Nickel (NLSY.PK) shareholders will vote December 14 to approve the spinoff of **Energy Polyus** (formerly Norilsk Power), with details to appear at the Norilsk website November 14.

Nyrstar (NYR.BR), one of the world's largest zinc producers, formed by the merger/spinoff of the zinc facilities of **Umicore** and **Zinifex**, has fallen 16% since its debut a couple of weeks ago.

Synovus Financial (SNV) will spin off its 81% stake in payment processor **Total System Services** (TSS), popularly known as TSYS, to shareholders by the end of the year.

In the upcoming breakup of family conglomerate **Bajaj Auto**, executive director Sanjiv Bajaj will move to the financial services spinoff, **Bajaj FinServ**. Follow-the-CEO has been a successful strategy in the past, but it remains to be seen how Bajaj FinServ prices.

DELAYS & CANCELLATIONS

Alfred McAlpine (MCA.L) accepted a third buyout offer from **Carrillion** (CLLN.N), mooting the former's planned spinoff.

Apart from McAlpine, cancellations appear to have come to a screeching halt. Since most busted spinoffs this year resulted from leveraged buyouts, one might interpret this as more evidence that the private equity party is over.

Brookfield Asset Management's (BAM.TO) spinoff of Brookfield Infrastructure Partners has been delayed to "early 2008," the company announced November 2.

The IPO of **Classmates Media** (CLAS) has still not been completed, and no expected date has been published. The public-relations push in the financial press was almost two months ago, and almost nothing has been reported since -- implying the offering may not be proceeding smoothly.

OTHER SPECIAL SITUATIONS

Thermadyne (THMD) will relist on Nasdaq after a 1998 bankruptcy (it emerged in 2003) and nine-year absence from the public markets.

COVERAGE RATIO VS. DEBT-TO-EQUITY RATIO

Compare **Knoll Inc.** (KNL) and **Hub Group Inc.** (HUBG). Both have high EBIT yields on employed capital and on total capitalization, implying they are good businesses available cheap. Both have enjoyed recent, significant insider buying. Either one might look like a good buy in the pre-August world. Yet today, HUBG is much more attractive (and certainly worth a look), because it has no debt, while Knoll owes about six times shareholders' equity.

Why focus on debt-to-equity, and not interest coverage? Because coverage ratio is meaningful only if debt can be rolled over at a predictable price. What if it can't? Commercial debt markets this summer sent a wake-up call: briefly, for some firms, money could not be borrowed at any price; the cost of capital was infinity, and the coverage ratio, whatever the financial statements may have said, went to zero. The integrity of a common stock investment then, depended upon net tangible assets.

Lest this observation seem obvious, recall that just a few months ago, some might have argued (rightly or wrongly) that the amount of leverage didn't matter much, as long as it was serviceable; one could safely assume going-concern status in all but the most basket-case companies, because each firm's cost of capital was relatively predictable.

After decades of stability in the US financial system, it's become an afterthought that common stock is the most junior asset claim. Some of the current investor flight from riskier capital structures seems not only well founded, but perhaps not yet conservative enough.

GLOBAL PAYMENT PROCESSING

The recent spinoff of **Metavante** (MV) is another step in the continuing transformation of electronic payments. *Spinoff & Reorg* has found this an interesting subject for years, thanks to a steady drip of reasonably priced spinoffs in the field: **Moneygram International** (MGI) in 2005, **Western Union** (WU) in 2006, and **Discover Financial** (DFS) in 2007.

If the phrase “global payment processing” seems a bit imprecise, consider a real-world example that illustrates both problems and solutions in the market, and conveys the scale of changes to come.

When **Apple Inc.** (AAPL) sells music through iTunes, who processes the millions of tiny purchase transactions, from dozens of different credit and debit card brands, in dozens of nations and currencies? The answer is a smallish (312 employees), London-based, venture-funded private company called ClickandBuy plc.

This is odd. Global debit/credit card validation requires a 3-second response on hundreds or thousands of different potential transaction types, with enormous volume, high scalability and perfect uptime. Why would a company of Apple's stature outsource such a complex and critical service to a small, unknown firm on another continent? Apparently because almost no one else provides such a service.

To illustrate by contrast, **US Bancorp** (USB) subsidiary Nova Information Systems is considered a backbone provider of payment processing within the United States, and has a large European subsidiary (euroConex). However, the firm's sales reps tell us, they offer merchants no way to sell in both dollars and euros from a single account, without paying foreign exchange fees.

First Data Corp. (acquired by KKR in September) does offer one-stop multi-currency payment processing without forced forex. However, it supports fewer payer types than ClickandBuy, and uses banks as resellers. The latter ties the merchant to that bank for clearing, but worse, could create the appearance of a conflict of interest when First Data tries to add new bank cards to their system.

PayPal, owned by **eBay** (EBAY), is like ClickandBuy in that it deals directly with merchants and deals in multiple currencies without requiring forex. However, it requires the merchant to send all customer traffic to PayPal's own website for payment -- unacceptable to strongly branded sellers like Apple and Amazon.

In short, the merchant services industry has not kept pace with the rise of large global electronic merchants. A great realignment is slowly taking place, and the endpoint probably looks something like this:

- Consolidation to several payment processors worldwide.
- Each neither owned by, nor reselling through, traditional banks.
- Receiving funds from payers in any major currency.
- Clearing to any bank account in any industrialized country, in that same currency, with no forex fees.
- Payment validation at the merchant's own website, not the payment processor's.

As this is already a relatively profitable industry, there is every indication of a profitable consolidation phase, ending in an even more profitable oligopoly.

Moreover, the transformation requires technology investment: this is Metavante's business, and it is growing rapidly. Earnings look set to rise 20% year on year. Unfortunately, after a 9% decline since listing last week, MV is still at 20 times earnings, too expensive for us; those willing to pay a premium for growth may see it differently. In any event, MV is worth watching for a further selloff.

As an aside, we observe that United States firms may prove very competitive in this industry. Nova and First Data can make money on merchant transaction fees that are often 30% to 50% lower than in Europe, so it is conceivable that payment globalization will bring additional profits to US firms while exposing Europe to a torrent of competition. The falling dollar magnifies the advantage.

Another aside: it seems eBay must inevitably spin PayPal back off as a public company. The primary barrier to this is probably reluctance to admit error: the combination has, from the beginning, looked like a mistaken vertical integration. PayPal's association to eBay hobbles efforts to gain acceptance with other major distribution outlets. The most obvious example: Amazon, the largest internet retailer, doesn't accept PayPal, the largest internet payment system.

Finally, we observe that the market power of credit card issuers should be further weakened by global, non-vertically-integrated payment processors. This would drive profits to the low-cost issuers, which may include Discover, though the markets certainly don't agree with us so far. DFS looked attractive to us in the 20s, and looks more attractive today, at 18. More about this in the next section.

RESURGENT BARGAINS

Disclosures: (1) The phrase “resurgent bargains” herein is a euphemism for “previous recommendations that tanked, but still appear to have good fundamentals.” (2) The author this week bought both securities mentioned in this section.

Spinoff & Reorg confesses some sympathy for the management at **Idearc** (IAR). Shares are down 43% from their May peak, to under 8 times earnings. Is this due to a sudden industry change, earnings miss or other nasty surprise? No, Idearc has so far delivered almost exactly the first-year result it promised at inception: flat revenue, high margins, and cash acquisitions in online directories. The dividend yield is now about 6.3%. We repeat our original assertion about Idearc: the phone directory business will go away, but probably not soon. In the meantime, one could do worse than IAR at current prices.

Discover Financial Services (DFS) seems similarly underappreciated. Yes, consumer credit is under a big cloud. Yes, there is liquidity risk, as mentioned on the previous page. Yet Mastercard, with similar (ballpark) operating margins and much less room for growth than Discover, trades at 30 times earnings (26 times projected 2008 earnings), while DFS languishes at just 11 times earnings.

Another consideration, which the press has begun to notice in recent weeks, is that the new 2006 federal bankruptcy laws in effect protect credit card issuers at the expense of mortgage lenders. The reason is that many states, including California, permit a consumer to default on his primary residence without involuntary bankruptcy. In states with such laws, a rational homeowner with little or no equity would default on his home before his credit card, because the former would avoid bankruptcy and/or attachment of assets.

Yet another consideration is last week's revelation in VISA's IPO prospectus about the status of its antitrust lawsuits with competitors, including Discover. VISA has agreed, effective November 9, to settle with American Express for over \$2 billion. This would suggest that a DFS victory or settlement is likely. The VISA prospectus acknowledges DFS is entitled to treble damages if it prevails; since Discover is arguably the single competitor most injured by anticompetitive practices, the judgment could be large.

In short, we have a profitable company with a lot of growth potential, selling cheap, perhaps less risky than it appears, and with a speculative kicker in the form of a possible antitrust judgment. The situation looks attractive.

OUR STOCK SELECTIONS VS. ALL SPINOFFS

In the table at right, "All Spinoffs" includes U.S. spinoffs listed between June 15, 2005 and May 15, 2007 (the latest date for which a 6-month return could be compiled). These were THS, DISCA, PLI, EXPE, OFLX, GVP, AMP, WBMD, FNT, CCO, TRX, LYV, DLIA, SPSN, TCMI, CBS, CMG (carveout), CXG, ROSE, HUGH, ME, SFL, POR, EQ, AKE, MWA (carveout), VRGY (carveout), WIN, WYN, H, SCA, QI, HBI, ASFG, THI, WU, CMG (distribution), VRGY (distribution), FIS, ALC, IAR, CEP, SBH (distribution), MWA (distribution), UPG, SE, HSTX, TA, CHIP, TWC, UFS, XFML, KFT, KBR and BR.

Returns since June 2005	All Spinoffs	Spinoff & Reorg selections
6-month absolute return	7.3%	12.1%
6-mo. return relative to S&P	1.2%	7.0%
Standard deviation	32%	25%

The "Spinoff & Reorg Selections" column includes each *Spinoff & Reorg* recommendation (on the last page of each month's issue) over the same period: OFLX, ABKH, HXL, DISCA, MFW, ESMC, AEO, CBS, FST, the FNF/FNT long/short, RSC, CD, AKE, USG, WYN, TARR, WU, IAR, OFLX (again), EXPGY, QI, HAL, FCX and UFS. Results are generated by calculating the 6-month return for each security, and taking the geometric mean of those returns.

The disappointing performance of Domtar (UFS) brought *Spinoff & Reorg's* long-term record down somewhat this month.

NOTES

The January 2008 issue of *Spinoff & Reorg* will appear a week later than usual, on approximately January 21st. As always, please send suggestions to subscribe@gemfinder.com. Popular requests will be incorporated.

SPINOFF CALENDAR

Company	Parent	Type	Listed	Date	Market Cap
Avanti Comm. Group (AVN.L)	Avanti Screenmedia (ASG.L)	IPO	UK	4/16/07	< \$100m
Dish TV (DSTV.BO)	Zee Telefilms (505537.BO)	Distrib	India	4/17/07	
Sea Production Ltd (SEAPF.PK)	Frontline Ltd (FRO)	Distrib	Norway	Apr-07	
* Sun Pharma Adv Rsrch (524715.BO)	Sun Pharmaceuticals (SUN.BO)	Distrib	India	4/30/07	< \$100m
* Tekmira Pharmaceuticals (TKM.TO)	Inex Pharmaceuticals (Toronto: IEX)	Distrib	Canada	4/30/07	< \$100m
* Great Western Exploration (GTE.AX)	Uran (URA.AX)	IPO/Distrib	Australia	Apr-07	
* Coil Tubing Technology (CTBG.PK)	Grifco International (GFCI.PK)	Distrib	USA	5/1/07	
Blinkx (BLNX.L)	Autonomy Corp (AUTN.L)	IPO/Distrib	UK	5/21/07	\$100m - \$500m

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* OAO Armada (ARMD.RTS)	RBC Information Sys (RBCI.RTS)	IPO	Russia	5/24/07	< \$100m
Origin Enterprises (OGN.L)	IAWS Group (IAW.L)	IPO	UK	6/5/07	\$500m - \$2b
Citadel Broadcasting (CDL)	Walt Disney Company (DIS)	Merger/spinoff	USA	6/6/07	> \$2b
Asciano (AIO.AX)	Toll Holdings (TOL.AX)	Distrib	Australia	6/6/07	> \$2b
* Uramet Minerals Ltd (URM.AX)	Elkeda Diamonds NL (EDN.AX)	IPO	Australia	6/6/07	< \$100m
FBR Capital Markets (FBCM)	Friedman Billings Ramsay (FBR)	IPO	USA	6/8/07	\$500m - \$2b
China Central Properties (CCPL.L)	Shui On Constr. & Materls. (983.HK)	IPO	China	6/8/07	\$500m - \$2b
* Fission Energy Ltd (FIS.AX)	Tasman Resources (TAS.AX)	IPO	Australia	6/11/07	< \$100m
Vostok Nafta Investment Ltd	Vostok Nafta / Vostok Gas (VOST.ST)	Spin/Rights	Sweden	6/13/07	\$500m - \$2b
* Q2 Gold Resources	Corriente Resources (ETQ)	Distrib	Canada	6/15/07	< \$100m
Discover Financial Svcs (DFS)	Morgan Stanley (MS)	Distrib	USA	6/18/07	> \$2b
Covidien (COV)	Tyco International Ltd. (TYC)	Distrib	Bermuda	6/18/07	> \$2b
Tyco Electronics (TEL)	Tyco International Ltd. (TYC)	Distrib	Bermuda	6/18/07	> \$2b
Transfield Svcs Infrastructure (TSI.AX)	Transfield Services (TSE.AX)	IPO	Australia	6/18/07	\$100m - \$500m
* Uranoz (URO.AX)	WCP Resources (WCP.AX)	IPO	Australia	6/22/07	< \$100m
* Monitise (MONI.L)	Morse Holdings (MOR.L)	IPO/Distrib	UK	6/27/07	< \$100m
* Clancy Exploration Ltd (CLY.AX)	Geoinformatics Exploration Inc. (GXL.TO)	IPO	Australia	6/27/07	< \$100m
* Pop Starz Records	Pop Starz Inc. (PSRZ.PK)	Distrib	USA	6/29/07	< \$100m
* Uranium Australia Ltd (UAU.AX)	Korab Resources Ltd (UAU.AX)	IPO	Australia	6/30/07	< \$100m
Mondi (MNDI.LN, MND.J)	Anglo American plc (AAUK)	Distrib	S. Africa	7/2/07	> \$2b
New World Department Store	New World Development (0017.HK)	IPO	USA	7/6/07	\$500m - \$2b
Aboitiz Power	Aboitiz Equity Ventures (PSE.PS)	IPO	Philippines	7/10/07	\$500m - \$2b
Iusacell (CEL.MX)	TV Azteca (TVAZTCAA.MX, TAZTF.PK)	Distrib	Mexico	7/10/07	\$500m - \$2b
* Fission Energy Corp	Strathmore Minerals Corp (STM.TO)	Distrib	Canada	7/10/07	< \$100m
* Continental Fuels (CFUL.OB)	Universal Property (UPDA.OB)	Distrib	USA	7/11/07	< \$100m
Int'l Personal Finance plc (IPF.L)	Provident Financial plc (PFG.L)	Distrib	UK	7/13/07	\$500m - \$2b
Pretoria Portland Cement (PPC.J)	Barloworld (BAW.J)	Distrib	S. Africa	7/13/07	> \$2b
WABCO (WBC)	American Standard (ASD)	Distrib	USA	7/19/07	\$500m - \$2b
MF Global (MF)	MAN Group (EMG.L)	IPO	USA	7/19/07	> \$2b
PharMerica Corp. (PMC)	AmerisourceBergen (ABC), Kindred (KND)	Distrib/Merger	USA	7/20/07	> \$2b
Petra Energy (5133.KL)	Petra Perdana (7108.KL)	IPO/Distrib	Malaysia	7/27/07	< \$100m
* Coil Tubing Technology (CTBG.PK)	Grifco International (GFCI.PK)	Distrib	USA	8/7/07	< \$100m
New GLV (water, pulp & paper)	Groupe Laperriere & Verreault (GLVa.TO)	Distrib	Canada	8/13/07	\$100m - \$500m
VMWare (VMW)	EMC (EMC)	IPO	USA	8/14/07	> \$2b
* CombiMatrix (CBMXD, CBMX)	Acacia Research (ACTG)	Distrib	USA	8/15/07	< \$100m
* Bedminster Capital	Bedminster National (BMSTA.OB)	Distrib	USA	8/31/07	< \$100m
* Bedminster Financial	Bedminster National (BMSTA.OB)	Distrib	UK	8/31/07	< \$100m
* Syrah Resources (SYR.AX)	Copper Strike Ltd (CSE.AX)	IPO	Australia	8/31/07	< \$100m
* Petrolind Drilling	Caddo International (CADD.PK)	Distrib	USA	9/11/07	< \$100m
Encore Energy Partners (ENP)	Encore Acquisition Company (EAC)	IPO	USA	9/12/07	\$500m - \$2b
Teradata (TDC)	NCR (NCR)	Distrib	USA	9/14/07	> \$2b
Nagreeka Capital & Inf. (532895.BO)	Nagreeka Exports (NAGR.BO)	Distrib	India	9/18/07	< \$100m
Global Sweeteners Holdings (3889.HK)	Global Bio-Chem (0809.HK)	IPO	Hong Kong	9/20/07	\$100m - \$500m
GMR Ferro Alloys	GMR Industries (GMRT.BO)	Distrib	India	9/24/07	< \$100m
Arseus (RCUS.BR)	Omega Pharma NV (OMEP.BR)	IPO	Belgium	10/5/07	\$500m - \$2b
Sony Financial Holdings (8729.T)	Sony Corp. (SNE)	IPO	Japan	10/11/07	> \$2b
* Thomas Pharmaceuticals	iVoice (IVOI.OB)	Distrib	USA	10/15/07	< \$100m
Zep Inc. (ZEP)	Acuity Brands (AYI)	Distrib	USA	10/17/07	\$500m - \$2b
Dah Chong Hong Holdings (1828.HK)	Citic Pacific (0267.HK)	IPO	Hong Kong	10/17/07	\$500m - \$2b
* Global Iron Ltd (GFE.AX)	Cape Lambert Iron Ore (CFE.AX)	Distrib	Australia	10/18/07	< \$100m
Patriot Coal Corporation (PCX)	Peabody Energy (BTU)	Distrib	USA	10/22/07	\$500m - \$2b
Gecina (GFCP.PA)	Metrovacesa (MEVCF.PK) (Spain)	Exchange	France	10/24/07	> \$2b
Nyrstar (NYR.BR)	Zinifex (ZFX.AX) / Umicore (ACUMt.BR)	Merger/IPO	Belgium	10/28/07	> \$2b
Metavante (MV)	Marshall & Ilsley (MI)	Distrib	USA	10/29/07	> \$2b
PT Multimedia (PTA.LS)	Portugal Telecom SGPS (ADR: PT)	Distrib	Portugal	10/30/07	> \$2b
* Carpentaria Exploration (CAP.AX)	Giralia Resources (GIR.AX)	Rights	Australia	11/12/07	< \$100m
APP Pharmaceuticals (APPX)	Abraxis BioScience (ABII)	Distrib	USA	11/13/07	> \$2b
* Minco Base Metals	Minco Gold (MGH)	Distrib	Canada	11/15/07	< \$100m
* Silverline Animation	Silverline Technologies (500389.BO)	Distrib	India	11/20/07	< \$100m
Teledata Marine Solutions	Teledata Informatics (TDIL.NS)	Distrib	India	11/23/07	< \$100m
Teledata Technology Solutions	Teledata Informatics (TDIL.NS)	Distrib	India	11/23/07	< \$100m
* Top End Uranium Ltd	North Australian Diamonds (NAD.AX)	IPO	Australia	11/27/07	< \$100m
MSCI (MXB)	Morgan Stanley (MS)	IPO	USA	Nov-07	\$500m - \$2b
Sinotrans Shipping (0368.HK)	Sinotrans (0598.HK)	IPO	Hong Kong	Nov-07	> \$2b
American Water Works	RWE AG (RWE.DE)	IPO	Germany	12/31/07	> \$2b

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Total System Svcs aka TSYS (TSS)	Synovus (SNV)	Distrib	USA	12/31/07	> \$2b
Crown (casino gaming)	Publishing & Broadcasting Ltd (PBL.AX)	Distrib	Australia	Dec-07	> \$2b
BT Financial Group	Westpac Banking (WPK)	IPO	Australia	Dec-07	\$500m - \$2b
* RXi Pharmaceuticals (RXIP)	CytRx Corp. (CTRX)	Distrib	USA	Dec-07	< \$100m
Guaranty Financial Grp (GFG)	Temple-Inland (TIN)	Distrib	USA	Dec-07	\$500m - \$2b
Forestar Real Estate Grp (FOR)	Temple-Inland (TIN)	Distrib	USA	Dec-07	\$100m - \$500m
Oil & gas properties	Berry Petroleum (BRY)	IPO	USA	Dec-07	\$100m - \$500m
Chinese water treatment plants	Hyflux (600.SG, HYFXF.PK)	IPO	Singapore	Dec-07	\$100m - \$500m
Bajaj Automotive	Bajaj Auto (Bajaj Holdings) (500490.BO)	Distrib	India	Dec-07	
Bajaj FinServ	Bajaj Auto (Bajaj Holdings) (500490.BO)	Distrib	India	Dec-07	
TippingPoint Security	3Com (COMS)	IPO	USA	Dec-07	\$500m - \$2b
CDC Software	CDC Corporation (CHINA)	IPO	USA	Dec-07	\$100m - \$500m
BYD Electronics	BYD (1211.HK)	IPO	HK	Dec-07	> \$2b
Sterlite Energy	Sterlite Industries	IPO	India	1/1/08	> \$2b
FairPoint Communications (FRP)	Verizon (VZ)	Distrib/Merger	USA	Jan-08	> \$2b
Portland Gas Ltd	Egdon Resources plc (EDR.L)	Distrib	UK	Jan-08	< \$100m
Sonae Capital	Sonae SGPS (SON.LS, SOVTF.PK)	Distrib	Portugal	Jan-08	\$500m - \$2b
Brookfield Infrastructure Partners	Brookfield Asset Management (BAMa.TO)	Distrib	Canada	Jan-08	\$500m - \$2b
Hill-Rom (HRC)	Hillenbrand Industries (HB)	Distrib	USA	Feb-08	\$500m - \$2b
Copper network	Telecom Corp of New Zealand (NZT)	Splitoff	NZ	Mar-08	
Wholesale service	Telecom Corp of New Zealand (NZT)	Splitoff	NZ	Mar-08	
Philip Morris International	Altria (MO)	Distrib	USA	Mar-08	> \$2b
Adcock Ingram	Tiger Brands (TBS.J, TBLMY.PK)	Distrib	S. Africa	Mar-08	\$500m - \$2b
* Titan Electronics Group	Titan Global Holdings (TTGL.OB)	Distrib	USA	Q1 08	< \$100m
A.H. Belo (newspapers)	Belo Corporation (BLC)	Distrib	USA	Q1 08	\$500m - \$2b
Combined Insurance Co. of America	Aon Corporation (AOC)	Distrib	USA	Q1 08	\$500m - \$2b
Compressco Master LP	Tetra Technologies Inc (TTI)	IPO	USA	Q1 08	< \$100m
U.S. fund unit	Julius Baer	IPO	Switz./USA	Q1 08	> \$2b
* Energy Polyus	Norilsk Nickel (NILSY.PK)	Distrib	Russia	Q1 08	> \$2b
San Miguel Brewery	San Miguel Corp (SMC.PS)	IPO	Philippines	Q1 08	
San Miguel Packaging Specialists	San Miguel Corp (SMC.PS)	IPO	Philippines	Q1 08	
* NCE R&D unit	Nicholas Piramal India Ltd	Distrib	India	Jun-08	
Americas Beverages	Cadbury Schweppes (CBRY.L)	Distrib	USA	Q2 08	> \$2b
Scripps Networks Interactive	E.W. Scripps	Distrib	USA	Q2 08	> \$2b
Lender processing services	Fidelity National Information Svcs (FIS)	Distrib	USA	Q2 08	\$500m - \$2b
FoodTech and airport systems	FMC Technologies (FTI)	Distrib	USA	Q2 08	
Polarn O. Pyret	Retail and Brands	Distrib	Sweden	Q2 08	< \$100m
TM International (Celcom assets)	Telekom Malaysia (TLMM.KL, MYTEF.PK)	Distrib	Malaysia	Q2 08	> \$2b
Suez Environnement	Suez (SZE)	IPO/Distrib	France	Q2 08	
Agfa Graphics	Agfa-Gevaert (AGFAt.BR, AFGVF.PK)	Distrib	Belgium	Q2 08	> \$2b
Agfa Healthcare	Agfa-Gevaert (AGFAt.BR, AFGVF.PK)	Distrib	Belgium	Q2 08	> \$2b
Agfa Materials	Agfa-Gevaert (AGFAt.BR, AFGVF.PK)	Distrib	Belgium	Q2 08	\$500m - \$2b
Loomis Cash Handling AB	Securitas AB (SECUB.ST)	TBA	Sweden	Q3 08	> \$2b
Banca Fideuram	Intesa Sanpaolo (ISNPY.PK)	TBA	Italy	Q3 08	
Physio-Control	Medtronic (MDT)	Distrib	USA	2008	\$500m - \$2b
Time Warner Cable (TWC)	Time Warner (TWX)	Distrib	USA	2008	> \$2b
Home Shopping Network	IAC/Interactive Corp. (IAC)	Distrib	USA	2008	> \$2b
Ticketmaster	IAC/Interactive Corp. (IAC)	Distrib	USA	2008	> \$2b
LendingTree	IAC/Interactive Corp. (IAC)	Distrib	USA	2008	\$500m - \$2b
Interval timeshares	IAC/Interactive Corp. (IAC)	Distrib	USA	2008	\$500m - \$2b
Nuclear Spinco	Entergy (ETR)	Distrib	USA	2008	> \$2b
* CPEX Pharmaceuticals (CPEX)	Bentley Pharmaceuticals (BNT)	Distrib	USA	2008	< \$100m
OpCo (media division)	Avusa aka Johnnic Comm. (JCM.J, JHNCY)	Distrib	S. Africa	2008	
Home textile business (LSE/AIM)	Gujarat Heavy Chemicals (GHCH.DL)	Distrib	India	2008	< \$100m
REI (retail division)	REI Agro Ltd (532106.BO)	Distrib	India	2008	< \$100m
Power generation	REI Agro Ltd (532106.BO)	Distrib	India	2008	< \$100m
* Pharmaceutical research	Ranbaxy Laboratories	IPO	India	2008	< \$100m
Glenmark Generics	Glenmark Pharmaceuticals (GLEN.BO)	IPO	India	2008	< \$100m
European real estate	Carrefour (CARR.PA, CRERF.PK)	TBA	France	2008	> \$2b
Frequent flyer program	Qantas (QAN.AX, QUBSF.PK)	Distrib	Australia	2008	
* Enigma Mining Ltd	TNG Ltd	IPO	Australia	2008	< \$100m
* DT Cinemas	DLF Ltd	IPO	India	2009	< \$100m
Qimonda (QI)	Infineon	Distrib	Germany	2009	> \$2b
Classmates.com (CLAS)	United Online (UNTD)	IPO	USA	TBA	\$100m - \$500m
Echostar Holding	Echostar Communications	Distrib	USA	TBA	> \$2b

SPINOFF & REORG PROFILES

NOVEMBER 2007

Issued November 15, 2007

EXCO Partners LP (XP)	EXCO Resources Inc. (XCO)	IPO	USA	TBA	> \$2b
Western Gas Partners LP (WES)	Anadarko Petroleum (APC)	IPO	USA	TBA	> \$2b
Reliance Power	Reliance Energy (RELF)	IPO	USA	TBA	> \$2b
* CDC Games Corp	CDC Corporation (CHINA)	IPO	USA	TBA	\$100m - \$500m
* Oil & gas recovery technology	Avalon Oil and Gas (AOGN.OB)	Distrib	USA	TBA	< \$100m
* Amore TV	Rapid Fitness (RPDI.PK)	Distrib	USA	TBA	< \$100m
Trillium	Land Securities (LAND.L)	Distrib	UK	TBA	> \$2b
Well services division	Seadrill Ltd (SDRL.OL, SDRLF)	IPO	Norway	TBA	
Ballarpur Paper Ltd (Holland)	Ballarpur Industries (India)	IPO	Netherlands	TBA	
Tradewinds (M) Bhd (4421.KL)	Tradewinds Corp Bhd (4804.KL)	Rights	Malaysia	TBA	< \$100m
PC and TV subsidiaries	Haier (1169.HK)	IPO	Hong Kong	TBA	
Bio Beauty Group	Global Green Tech (0274.HK)	IPO	Hong Kong	TBA	\$100m - \$500m
Air Canada (AC-A.TO)	ACE Aviation Holdings (ACE-B.TO)	Distrib	Canada	TBA	> \$2b
Air Canada Technical Services	ACE Aviation Holdings (ACE.TO)	IPO	Canada	TBA	\$500m - \$2b
* Mabec Uranium	Matamec Explorations Inc. (MAT.TO)	Rights	Canada	TBA	< \$100m
* Rincon Lithium	Admiralty Resources NL	Distrib	Australia	TBA	< \$100m
Nickel assets	Australasian Resources	Distrib	Australia	TBA	< \$100m
PolyNovo	Xceed Biotechnology (XBL.AX)	Distrib/IPO	Australia	TBA	< \$100m
* Indiabulls Securities Ltd	Indiabulls Financial Svcs (532544.BO)	Distrib	India	TBA	< \$100m
Vardhman Hotels Pvt Ltd	Asian Hotels (500023.BO)	Distrib	India	TBA	< \$100m
Chillwinds Hotels Pvt Ltd	Asian Hotels (500023.BO)	Distrib	India	TBA	< \$100m
Unitech Hotels (Hospitality) Ltd.	Unitech Ltd (UNTE.BO)	Distrib	India	TBA	\$500m - \$2b
CHI Investment	Ceat Ltd (500878.BO)	Distrib	India	TBA	\$100m - \$500m
Brandhouse Retails Ltd	S Kumars Nationwide Ltd (SKSYF.PK)	Distrib	India	TBA	< \$100m
Helicopter charter division	Deccan Aviation (DECA.BO)	Distrib	India	TBA	< \$100m
MVL Ltd	Media Video	Distrib	India	TBA	< \$100m
Adlabs Radio	Adlabs Films (ADLF.BO)	Distrib	India	TBA	< \$100m
GV Studio City Ltd	GV Films Ltd (GVFI.BO)	Distrib	India	TBA	< \$100m
GV New Media Technologies Ltd	GV Films Ltd (GVFI.BO)	Distrib	India	TBA	< \$100m
Pharmaceutical research	Aurobindo	Distrib	India	TBA	< \$100m
Pharmaceutical research	Cadila	Distrib	India	TBA	< \$100m
Pharmaceutical research	Lupin Labs	Distrib	India	TBA	< \$100m
Future Capital Holdings	Pantaloon Retail	IPO	India	TBA	\$500m - \$2b
Forging division	LG Balakrishnan & Bros.	TBA	India	TBA	< \$100m

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) publicly filed or announced by management as certain to proceed; and (ii) it appears a market will promptly be made in the spun-off entity. "Date" means record date for distributions, or initial trade for IPOs. Indian spinoff dates may refer either to record date or listing date, depending upon circumstances. Listings are shown for a few months after the event, as some opportunities emerge only then. Publicly announced "possible" spinoffs are not listed, and not recommended for investment. "Exchange" transactions mean holders are offered the option to trade their shares in the parent for shares in the spinoff.

Promotional stocks are listed, but marked with an asterisk ("*") to be ruled out quickly by traditional value investors. Such firms tend to exhibit almost no current revenue; self-promotion via free, self-issued press releases not picked up by news agencies; spinoff announcement without prompt regulatory filing; claims to own valuable assets located in remote, inaccessible locations (Arctic Canada and interior Africa are time-honored favorites); high management salaries relative to revenue or capitalization; and/or headquarters disproportionately frequently located in Vancouver, Florida or southern California. Again, there may be specialists out there, which is why we include the information.

SPINOFF PARENT

STRUCTURE

BACKGROUND

In October 2007, Acuity Brands (AYI) spun off Zep Inc. (ZEP), a maintenance products division unrelated to its primary commercial lighting business, to its shareholders as a tax-free stock dividend.

TERMS

Acuity shareholders received one share of ZEP for every two shares of AYI. Acuity received a \$62.5m one-time dividend from Zep, financed by new debt on the spinoff.

ANALYSIS

Before the spinoff, in the fiscal year ending August 31, 2007, Zep accounted for 22% of the combined company's sales, 23% of inventory, and 24% of plant and equipment -- but only 13% of profit.

These numbers by themselves suggest Acuity has simply dumped ballast, eliminating a low-return division to increase its overall return on capital.

When the spinoff occurred, the market assigned a relatively high multiple of 20 to Zep, and the parent gapped down by approximately the market value of Zep.

As a result, we see an unusual window in which the parent's fundamentals have improved in recent weeks, even as its P/E ratio has dropped from 15 to 12.

The inefficiency may result from low visibility: data services like Reuters do not yet carry AYI's ex-spinoff pro forma financials, though the company reported them in an interim SEC filing on November 6.

Situations like this illustrate why spinoffs can be hard to "game" with mechanical strategies. Each one has a different structure and different data sources, providing fertile ground for the old-school security analyst.

OWNERSHIP DISCLOSURE

Author does not own AYI.

Acuity Brands, Inc.

Company Information

BUSINESS

Acuity Brands is one of the world's largest providers of branded lighting fixtures. It sells mainly to the commercial construction industry, and predominantly (89%) in North America, under about a dozen different brands.

Excluding the spinoff, for the year ending August 31, 2007, Acuity earned operating profit of \$222m and net profit of \$129m on sales of \$2.0 billion. Sales increased only 7% over 2006, but EBIT increased 42% and net increased 61%. Gross margin was 38%, up from 35% in 2006. Earnings per share have more than quintupled since 2005. The company currently forecasts continued but slower growth in the coming year.

Operating return on employed capital in fiscal 2007 was around 55%, again excluding Zep, compared to about 45% when including the spinoff.

In short, this was a good business before eliminating Zep, but is even better now.

VALUATION

AYI closed at 37.04 on November 15, or about 12 times pro forma earnings for the fiscal year ended August 31, 2007. EBIT yield on total capitalization (debt plus market value of equity on a fully diluted basis) is about 11%.

Acuity has announced it intends to use the \$62.5m dividend it received from Zep in the spinoff to help fund a buyback of 5% of shares.

The overall picture is of a very high-return business, available at a fair or even low price, with no premium paid for any growth that may occur, despite a recent history of rapid growth.

Such businesses tend to bring good results under most conditions, assuming rational management: if conditions permit growth, they can reinvest at a high rate; if not, they can buy back stock, again at a high effective rate; if inflation takes hold, they have lower exposure to rising costs, due to their relatively small plant.

PROPOSED TACTIC

Buy.

RISKS

Any company selling into a construction-related industry understandably inspires fear today. So far, however, the damage has been confined to residential construction. Acuity claims its sales are not exposed to residential, and purportedly remain stable, recovering after a brief downturn for the month of September.

At August 31, long term debt was \$364 million, or 77% of tangible book value. Nearly all of this is fixed-rate, about half maturing in January 2009, and the rest in July 2010. However, Acuity holds cash equal to 77% of debt, and maintains a \$250m revolving facility, with no outstanding balance, expiring in 2012. Acuity is no Berkshire Hathaway, but apparently not exposed to extreme, unexpected dislocations.

Insiders collectively own well under 5% of the business, and have not been buying. This is not a negative signal, as it is not a change from historical insider behavior. However, it does mean that one of our favorite positive signals is absent.