



**PRESERVER**  
PARTNERS

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## *Investment Opportunities in Spin-Offs*

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A spin-off occurs when a parent corporation separates part of its business into another publicly-traded entity (spinCo) and distributes shares of the new entity to its current shareholders. The new entity takes assets, employees, or existing product lines and technologies from the parent in exchange for a pre-determined amount of cash. The spinCo entity may also take on debt to provide a cash payment to the parent company (RemainCo).

Companies may have several reasons for spin-offs. Announcements of spin - offs can lead to significant share price outperformance by the parent company in both the short and the long-term, highlighting their effectiveness as a tool to enhance valuations. Spin-offs can be particularly attractive for conglomerates. Many conglomerates that operate unrelated and/or non-core business segments trade at more significant discounts than diversified firms operating primarily in related businesses. New managements of spinoffs often sharpen the focus on their core businesses and assets. Empirical studies suggest companies that were separated through a spin-off generally outperformed the overall equity market from 2002-2017. That was true of both the spun-off entity and the parent company.

Two recent spin-offs from United Technologies are interesting investment opportunities. As part of its merger with Raytheon, United Technologies spun its global elevator business into Otis Corporation (OTIS) and its HVAC, refrigeration and fire & security businesses into Carrier Global (CARR). Otis is one of the five global leaders in elevators and the only elevator pure play in the U.S. stock market. While 80% of its earnings come from stable service revenues, Otis has growth opportunities from elevator installations



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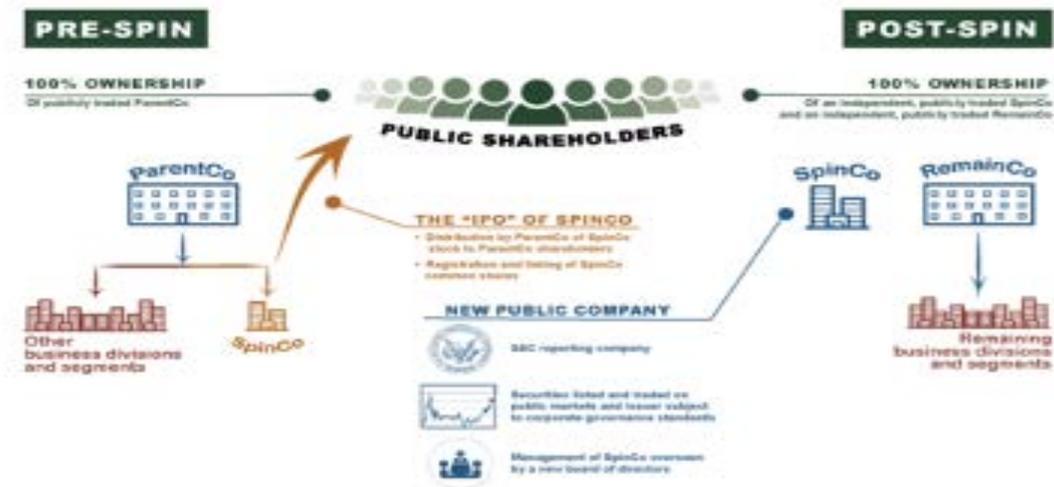
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*Disclosures: Investors should carefully consider the Fund's investment objectives, risks, charges and expenses before investing. This and other important information is contained in the prospectus, which should be read carefully before investing. To obtain a prospectus, call 1-844-838-2119. The Fund is distributed by Ultimus Fund Distributors, LLC. As of 6/18/20, PAOIX's holdings of CARR represented 0.96% of the fund's total net and 1.04% of OTIS.*

*Investors should be aware that spinoffs can also experience high selling activity; shareholders of the parent may not want the shares of the spinoff they received because it may not fit their investment criteria. The share price may dip in the short term because of this selling activity, even if the spinoff's long-term prospects are positive. 10462302-UFD-6/18/2020*

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from new construction and replacing older units. According to Otis, approximately one-third of the 16 million elevators around the world are at least 20 years old, creating a long runway of growth opportunities.

Carrier Global is a world leader of residential and commercial HVAC, refrigeration and fire & security solutions with \$19 billion in revenue. The post spin-off valuation is significantly below its peers in part due to the company's debt load and more modest growth opportunities. While Carrier doesn't have the growth opportunities of Otis, effective deleveraging and operating margin improvement can lead to share price upside. There are strong trends in the residential HVAC replacement cycle and in new housing. Both companies will benefit from the appointment of internal CEOs and the secular growth trend in digitization of industrial equipment.

Spin-offs can be attractive opportunities for both the spinCos and the RemainCos that generate operational focus, greater profits and shareholder value. A spin-off can be an optimal choice to increase shareholder value, letting each business focus on what it does best in its chosen markets.