

Dean Foods (DF) and Tax Free Spinoffs

In my daily check of the market movement, I noticed Dean Foods (DF) dropped 50% on Friday, or in other words, a \$4 BB cap went to \$2 BB. So, I looked into this matter and I learned they had conducted a spinoff of their organic foods business, WWAV, and this entailed paying out the shares to the DF shareholders. Class A shares were IPOd first, but retained only 1.5% of the voting rights. Class B shares, which were held by DF, were distributed to the current DF shareholders.

The spinoff helps to unlock value for loyal shareholders. We haven't looked into the numbers, but on a conceptual basis, WWAV may have contributed immaterial amounts to the parent company, a blip of accretive impact on the bottom line for DF. However, by spinning off the business, DF holders can hold shares of the same entity which can be priced at a higher multiple than DF, thereby rewarding DF shareholders with an extra return. On a corporate level, DF still retained 15% of the Class A shares, which can be sold for cash within their exit schedule.

