



Stock talk

Anna & the Banana

by Bill Dickneider

Splits and Spin-offs! What's an investor to do? Terms like these can scare one away from the stock market. So it makes sense to turn to an expert on these matters. And what better one can you find than ... a banana?

The Banana Splits

A banana? Sure! Bananas know plenty about splits. After all, they were splitting long before peanuts were buttering. And a stock split and a spin-off both involve something that's splitting.

If only bananas could speak. Anna wished they could while looking at the banana she was about to put on her cereal. She was thinking about stock splits and spin-offs because she had run into both terms while playing The Stock Market Game. She wants to know what they mean.

"Hi, Anna," said the banana. "Before I peel off for your cereal, let me tell you about splits and spin-offs."

Anna jumped. "I must be daydreaming," she said. "Bananas can't talk!"

"I can," said the banana. "And beneath my rind are nutrients for your mind."

"Can you tell me about stock splits?" asked Anna.

"A fruitful subject," said the banana. "Do you have any money in your pocket?"

Anna put a dollar bill on the table. The banana then replaced it with four quarters. "Do you have more money now than you did before?" it asked.

"Of course not," answered Anna. "A dollar bill is worth the same as four quarters."

"Exactly," said the banana, "even though I've split your dollar into four parts. It's the same with stocks. Take Krispy Kreme Doughnuts as an illustration. On June 15, 2001, the company had a two-for-one stock split. Before the split the stock had traded at \$70 per share. The company then swapped each \$70 share for two shares, each worth \$35. No pain, no gain," said the amazing banana.



The Sonic restaurant chain (SONC) had a 3 for 2 stock split on February 11, 2002. What does that mean?

“Are stock splits always two for one?” asked Anna.

“They come in all flavors,” answered the banana. “You can check various web sites (see box at right) to find stock splits in past months and also those planned for the future. You’ll find splits like the one for Rocky Mountain Chocolate Factory on March 4 of this year. The company had a four-for-three stock split.”

“You mean an investor in Rocky Mountain Chocolate got four lower-priced shares in place of three higher-priced ones but still had the same total investment?”

“Right,” agreed the agreeable banana. “It’s like my splitting your dollar bill into four quarters. You didn’t end up with more money, and stockholders didn’t end up with a bigger investment.”

“So why do companies have stock splits?” asked Anna.

“They think a split will make it easier for investors to trade their stock. With more shares at lower prices, companies hope to make their stocks more attractive.”

The Banana Spins

“Can you also tell me about spin-offs?” asked Anna.

“Here again something is splitting,” said the banana, “but this time it’s the company itself. Do you like pizza, fried chicken, or tacos?”

“Sure,” answered Anna, “but what does that have to do with spin-offs?”

“Plenty!” explained the banana. “In 1997 Pepsico spun off Taco Bell, Pizza Hut, and KFC. The three restaurant chains became part of a new company called Tricon Global Restaurants. Tricon is now listed on The New York Stock Exchange under the symbol YUM!”

“You mean Pepsico sold the companies to the public?”

“Not exactly,” explained the banana. “A spin-off occurs when a company makes part of itself into an independent business. It creates new shares in the new business and gives them to its stockholders. When Pepsico created Tricon Global Restaurants, it gave every stockholder one share of Tricon for every 10 shares of Pepsico they owned. Tricon’s shares then began to trade on the stock market.”

“Why did Pepsico do that?” asked Anna.

“It thought it would earn more money because it could focus on selling soda and Frito Lay chips. Companies often have spin-offs so each business can focus on what it does best. They hope the earnings

Stock Split – A company divides its shares into a larger number of lower-priced shares without changing the value of stockholders’ investments. (A reverse split creates a smaller number of higher-priced shares.)

You can find useful stock-split information at web sites like these:

<http://biz.yahoo.com/cs.html>

<http://www.stocksplits.net/>

http://www.nasdaq.com/reference/upcoming_splits.stm

Spin-off – A company makes part of itself into an independent business. It then creates new shares in the new business and gives them to its stockholders.

You can find useful definitions and descriptions at:

<http://www.spinoffadvisors.com/>

<http://www.spinoffstocks.com>



of the separate companies will total more than the earnings of the original business.”

“I heard that Barnes and Noble just made GameStop, the nation’s largest video-game retailer, into a company whose shares now trade on the stock market. Was that a spin-off?” asked Anna.

“Not really,” answered the banana. “Barnes and Noble didn’t give any shares of GameStop to its stockholders. Instead, it sold a small number of them to the public in an Initial Public Offering (IPO). That was a sale, not a spin-off. But Barnes and Noble still owns most of GameStop’s shares. If it gives these remaining shares to its stockholders in the future, that would be a spin-off.”

“Can I find a list of spin-offs on the web like the list of stock splits you mentioned?” asked Anna.

“There aren’t up-to-date lists as there are for stock splits,” said the banana. “But you can check financial news sites for stories about spin-offs.

“Like Water Pik,” continued the banana. “In 1999 Allegheny Technologies gave its stockholders one share of Water Pik for every 20 shares of Allegheny Technologies they owned. Water Pik then became an independent company with shares trading on the stock market.”

Write Now

Pick one of the following and write a paragraph to explain your answer.

You own stock in the Sonic Corp. mentioned on page 1. The day before it split the stock sold for about \$37.50. Afterwards, it began selling at about \$25. Did the value of your investment change?

Tricon and GameStop both became independent companies. Why was only one of these a spin-off?