

December 02, 2025 | Issue 11

Insights Engine | Capital Markets

# Activist-Driven Spin-offs: The Next Engine of Value Creation and Governance Risk



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## Executive Summary

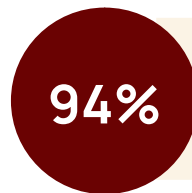
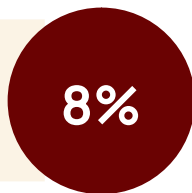


2024 marked a watershed year for shareholder activism and corporate spin-offs in the U.S. A confluence of a 30% YoY decline in traditional M&A activity, the universal proxy-card reforms of 2022, and an unprecedented surge in activist campaigns, particularly from first-time investors, has redirected value-creation pressure inward. Companies are now confronting activist demands to simplify asset mixes, separate underperforming businesses, and refresh board composition. The result is a near-doubling of spin-off IPO volume to 20 transactions and \$12.8 bn of capital raised, signaling that spin-offs have moved from opportunistic maneuvers to strategic necessities for a growing cohort of large, diversified public firms.

Investors who understand how activism is reshaping spin-off dynamics will be better positioned to capture the upside of well-executed separations while mitigating the heightened governance risk that accompanies poorly designed carve-outs. In this issue of our bi-weekly Insights Engine, we dissect the drivers, the activist playbook, the governance vulnerabilities of newly formed SpinCos, and defensive tactics for incumbents.

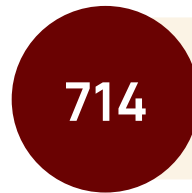
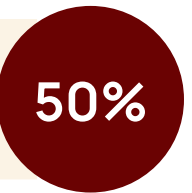


U.S. CEOs Exited Within  
12M of Activist Demand  
in 2024, ~3x from 2023



Activist Success in  
Securing Single-Seat  
Board Contests

Activist Demands are for  
Executive Replacement



High-Impact Campaigns  
in 2025

## Activism's New Intensity: Drivers and Board Implications

The intensity of U.S. shareholder activism reached an unprecedented level in 2024, expanding beyond traditional conglomerate targets to encompass large, diversified corporations across sectors. Activists leveraged the **2022 universal proxy-card rules** to challenge long-tenured directors, demanding board refreshes that prioritize diversity, industry expertise, and independent oversight. This regulatory shift lowered the threshold for proxy contests and amplified activist leverage over board composition.

**CEO turnover provides a stark metric of activist pressure.** Diligent data show that 67 of 846 U.S. CEOs (~8%) exited within 12 months of an activist demand in 2024, a near-tripling of the 3% rate observed in 2023. Although activist win rates fell to 38%, the lowest since 2021, their success in securing single-seat board contests rose to 94%, the highest since 2021, and they recorded 76 zero-seat outcomes, up from the mid-50s in prior years. This paradox reflects a strategic pivot: **activists are increasingly content to settle early, often without public campaigns, negotiating board appointments that bring specific expertise to the target firm.**

First-time activist investors exploded in 2024, launching more campaigns than established firms and targeting a broader set of companies, including non-mega-caps. This influx adds a layer of uncertainty for issuers, as newcomers may deviate from traditional playbooks and pursue unconventional value-creation levers, such as forced spin-offs of underperforming units.

## From M&A to Internal Value Creation: The Rise of Spin-offs

U.S. M&A activity contracted by roughly 30% year-over-year in 2024, prompting boards to look inward for alternative sources of shareholder value. The same year witnessed 20 U.S. spin-off IPOs raising \$12.8 bn, nearly double the 2023 volume. This rapid acceleration in corporate break-ups reflects a strategic shift: **firms are increasingly using carve-outs and divestitures to unlock hidden value, improve capital allocation, and pre-empt activist demands for simplification.**

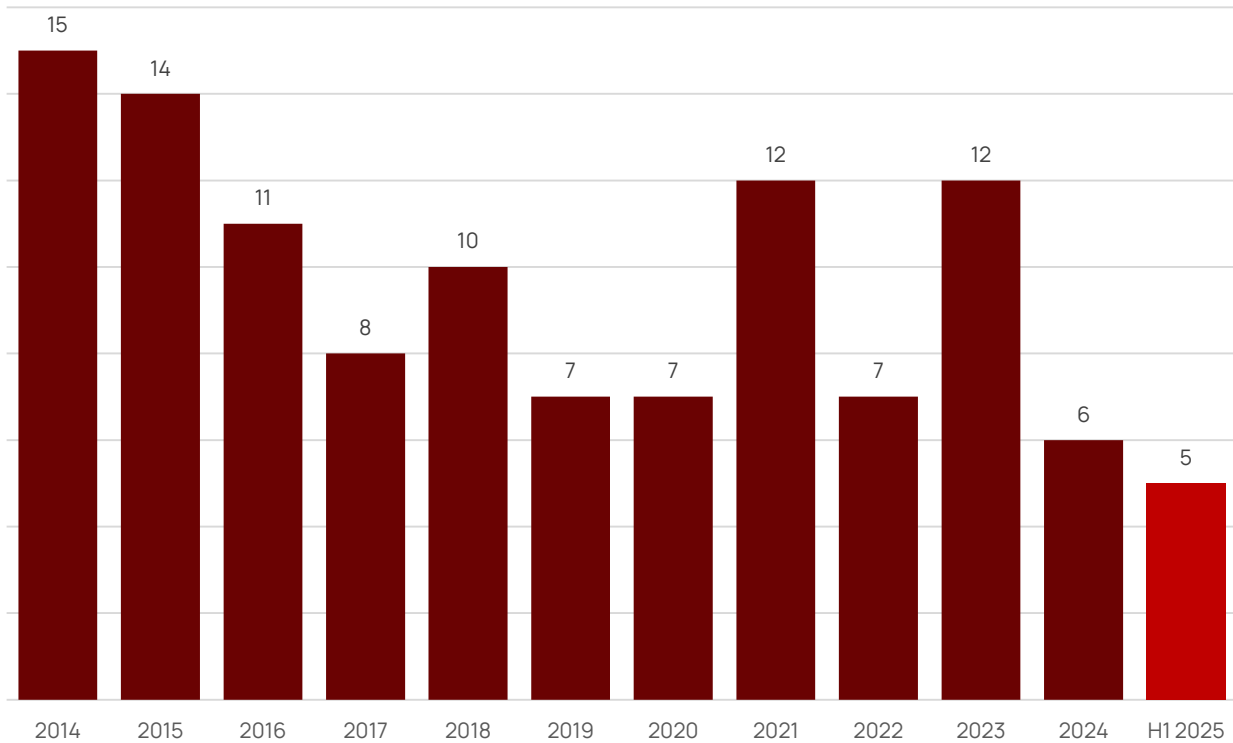
Activist investors have broadened their focus from traditional conglomerates to large, diversified firms, using asset-mix simplification as a catalyst for change. The logic is straightforward: **by separating high-growth, high-margin businesses from legacy, capital-intensive assets, management can present clearer growth narratives, improve operating margins, and create distinct investment theses that appeal to specialized institutional investors.** This structural scrutiny, combined with a stagnant M&A pipeline, will cement spin-offs as a strategic necessity rather than a discretionary option for a growing cohort of public companies.

## Activist Playbook: Targeting SpinCos from Inception

The activist playbook has evolved to focus on newly formed spin-off entities, which we call SpinCos, often entering the market within six to eighteen months of their creation. **Activists are targeting these SpinCos early, capitalizing on their nascent governance structures, limited operating histories, and the heightened scrutiny that accompanies a fresh public listing.** Underperforming spin-offs become

priority targets; activists view management failure as a lever to demand board changes, increased oversight, and, in some cases, a full strategic overhaul.

**Completed U.S. Spin-offs Rose 16% from 2017-20 (#32) to 2021-24 (#37)**



Source: Pursuing Separations in an Activist Era: A Strategic Playbook by Goldman Sachs.

A key pattern is **the activist-driven push for board refreshes that prioritize expertise specific to SpinCo's core business**. Settlement activity accelerated in 2024, with many activists opting for negotiated agreements that secure board seats without launching public proxy fights. This approach reduces reputational risk for both parties while still delivering the governance influence activists seek. Moreover, activists have begun to focus on compensation structures within spin-offs, exemplified by the Southwest Airlines case, where activist pressure on executive pay highlighted the broader trend of scrutinizing management incentives in newly independent entities.

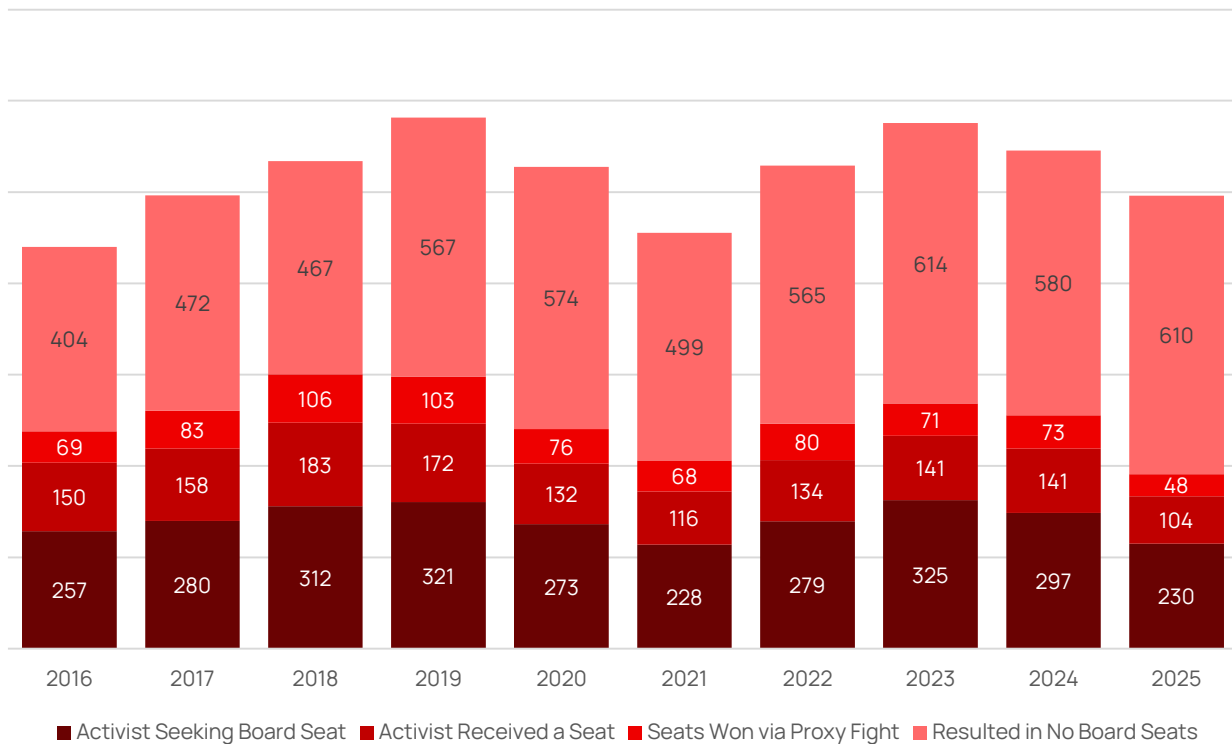
**Governance Vulnerabilities in Newly Formed Spin-offs**

While spin-offs can generate short- to mid-term value uplift, poorly executed separations expose the new entities to heightened activist risk. We note that **weak bylaws, under-developed governance frameworks, and inexperienced internal management teams are common vulnerabilities**. In many cases, the spin-off's leadership lacks the depth of experience required to navigate public-company obligations, leading to operational missteps and suboptimal capital structures.

Higher leverage is another recurring theme. **To fund the separation and provide liquidity to the parent, spin-offs often assume significant debt, which can constrain cash flow and limit strategic flexibility.** Activists exploit this debt burden, arguing that excessive leverage hampers value creation and justifies board changes or strategic redirection. **The Southwest Airlines compensation episode underscores how activist scrutiny can extend beyond strategic issues to encompass remuneration policies, further destabilizing management credibility in the early life of a SpinCo.**

We believe that **these governance gaps create a fertile environment for activist entry.** The combination of a weak board, inexperienced management, and a heavy debt load not only invites activist campaigns but also accelerates shareholder turnover, providing the liquidity activists need to build positions and influence outcomes.

### High Impact Campaign Analysis - All Sectors, Global



Source: FactSet. Data as of 11/28.

### Liquidity Dynamics: Shareholder Turnover and Activist Capital

Spin-offs inherently generate high shareholder turnover as existing shareholders of the parent company receive shares in the newly created entity. We note that **this turnover delivers liquidity to activist investors, who can quickly amass sizable stakes in the SpinCo at relatively low cost.** The rapid influx of new shareholders also dilutes the influence of any incumbent block, making it easier for activists to rally support for board nominations or strategic changes.

The liquidity advantage is amplified when the spin-off is a large-cap entity with substantial “dry powder” in the activist community. Activists with readily available capital can deploy funds swiftly, targeting underperforming SpinCos where the probability of a successful board intervention is higher. This dynamic creates a feedback loop: higher turnover begets activist entry, which in turn can trigger further turnover as shareholders react to governance battles, reinforcing the activist’s position.

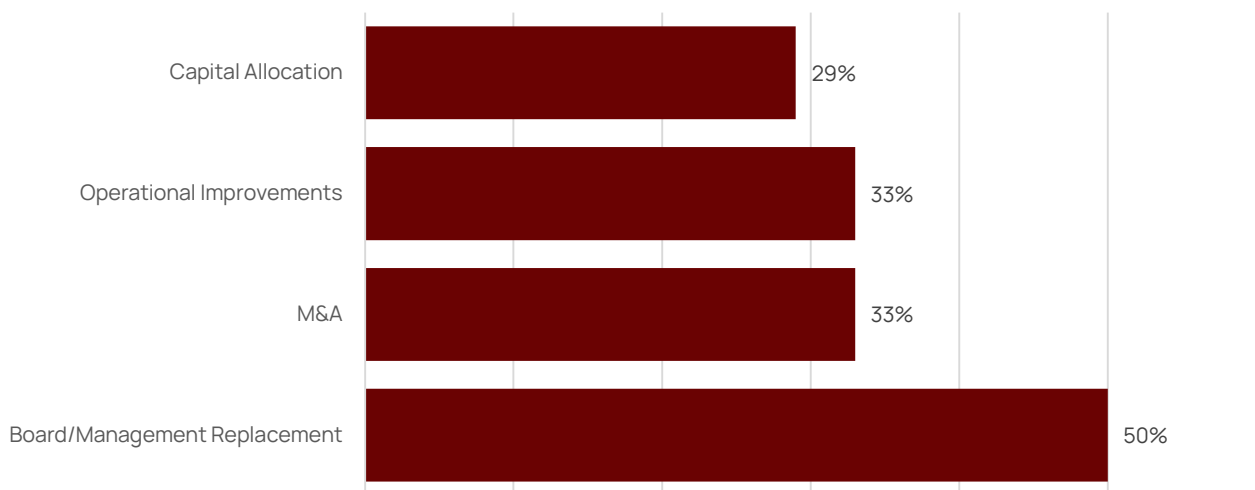
### Defensive Strategies: Pre-emptive Activist-Readiness

Given the heightened risk profile of spin-offs, boards are increasingly adopting a “pre-emptive activist-readiness” stance. We note that **companies are now evaluating potential spin-off opportunities before external pressure mounts, integrating activist risk assessments into their strategic planning processes**. Early identification of vulnerable assets and proactive governance enhancements, such as robust bylaws, independent director pipelines, and clear compensation policies, can mitigate activist leverage.

Strategic communication playbooks are essential to articulate the value proposition of a spin-off to institutional investors and to pre-empt activist narratives that paint the separation as a failure of management. We believe that **transparent disclosure of the spin-off’s capital structure, growth strategy, and governance framework reduces information asymmetry**, limiting activist ability to frame the transaction as a catalyst for board change.

**Boards must also prioritize diversity and industry expertise in their post-spin-off director slate, aligning with the activist-driven demand for board refreshes under the universal proxy-card regime.** By proactively adding directors with relevant sector knowledge and independent oversight, incumbents can blunt activist arguments that the SpinCo suffers from a lack of qualified oversight.

### Prevalence of Common Demands in U.S. SpinCo Campaigns



Source: Pursuing Separations in an Activist Era: A Strategic Playbook by Goldman Sachs

## The Outlook: Persistent Activist Pressure and Spin-off Momentum

The forward trajectory suggests that **activist pressure will remain a dominant force shaping corporate strategy**. With 108 public activism indications already logged, we expect continued focus on board composition, CEO performance, strategic direction, and ESG/DEI initiatives. The spillover effect into spin-off activity is likely to be pronounced: as the M&A market remains subdued, firms will view structural simplification via carve-outs as a primary lever for value creation.

We believe that **large-cap companies, those with substantial dry-powder activist funds, will be the most frequent spin-off candidates, given the scale of potential shareholder turnover and the liquidity it provides to activist investors**. Companies that fail to embed robust governance structures in their spin-off plans risk attracting early activist entry, board challenges, and potentially costly settlements. Conversely, firms that execute disciplined, well-communicated spin-offs can outperform their sector peers, as the market rewards clarity of focus and operational independence.

## Conclusion: Navigating the Activist-Spin-off Nexus

We conclude that **the intersection of heightened shareholder activism and a retreat from traditional M&A has fundamentally altered the corporate restructuring landscape**. Spin-offs are no longer peripheral tactics but have become strategic imperatives for large, diversified U.S. firms seeking to defend against activist campaigns and unlock latent value. The key determinants of success will be the quality of governance at inception, the depth of management expertise, and the ability of boards to anticipate and neutralize activist demands through pre-emptive readiness.

For thematic investors, the implication is clear: **prioritize spin-offs that exhibit strong, independent boards, transparent capital structures, and experienced management teams**. Simultaneously, monitor activist activity closely, as early entry into a SpinCo can signal both a risk of governance disruption and an opportunity for activist-driven value creation. By aligning investment theses with these dynamics, investors can capture the upside of well-executed carve-outs while managing the heightened governance risk that characterizes the activist-driven spin-off environment.



## About us

RCK Analytics is a global provider of high-quality investment research, investment banking support, PE/VC insights, Gen AI solutions, market research, analytics, and assurance services. We serve a diverse client base including investment firms, PE/VC funds, asset managers, hedge funds, investment banks, consulting firms, and corporates across sectors. Backed by a skilled team, we deliver data-driven insights and strategic support to help clients make informed decisions and drive financial outcomes.



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