Iconic corporate names breaking up in trend to boost value

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GE and Toshiba are splitting into three parts while Johnson & Johnson will break into two businesses, big names in a growing trend.

Three multinational giants—General Electric, Johnson & Johnson and Toshiba—this week announced plans to split into multiple companies,

joining a trend the firms hope will provide more growth opportunities.

It is a move in large part forced on them by financial markets, analysts say.

The break ups "represent a trend line that has been out there for 20 years ," said Michael Useem, professor at the University of Pennsylvania's Wharton School.

The big names joining the trend indicate the model of a huge, diversified conglomerate "is unequivocally on its way out," he told AFP.

Useem, who specializes in corporate restructuring, said the move allows the companies "to become more focused on single markets."

GE, like Japan's Toshiba, announced it was splitting into three companies, involved in aviation, health and energy.

Toshiba, which had previously spun off several divisions, will break off infrastructure and electronic devices like semiconductors, leaving the flash memory business.

Meanwhile, pharmaceutical giant Johnson & Johnson on Friday announced plans to spin off its consumer health arm that sells Band-Aids and Tylenol from its pharmaceutical division that includes the single-shot Covid-19 vaccine.

Last week DuPont, which in 2019 became an independent entity after it broke off from Dow Dupont, announced it was exiting the industrial products business line.

And IBM floated Kyndryl, which manages companies' IT infrastructure.

Gregori Volokhine, portfolio manager at Meeschaert Financial Services, said this process separates the wheat from the chaff.

He noted that GE was long weighed down by "black sheep" in the energy unit and its financial services division that suffered in the wake of the 2008 financial crisis.

"All the other branches suffered" as a result, he told AFP, not just in the stock market valuation but "also from the capital allocation" between segments standpoint.

Useem said the depressed share prices amounted to a diversification penalty, reflecting the fact that analysts and investors can find it "intellectually challenging" to get a good read on the fortunes of the massive and complex corporations.

Volokhine said it is better for the companies to split up on their own terms and control the strategy "rather than being pushed to do so by activist shareholders."

Conglomerates 2.0

But the breakups are not all driven by financial struggles, said Jim Osman of The Edge, who specializes in spinoffs.

"J&J is a fine company" with "two business segments, which are market leaders ... that they think can flourish on their own," he told AFP.

For corporations like these, spinoffs are a way to create more value when the stock price is already at record levels, amid the Covid-19 market rally this year.

"It's a natural thing to do" when the market is at a peak and "you can't

get any more growth out the system," he said.

Howard Yu, professor at the IMD in Switzerland, makes the case that some old conglomerates, such as Honeywell, have been able to withstand the pressure because they capitalized on digital advances.

Unlike GE, that company was able to "demonstrate the ability to make data flow ubiquitously across different business areas."

The same is true for 21st century companies like Amazon or China's Alibaba that benefit from "digital glue," he said, noting Amazon's presence in cloud computing, online shopping, groceries and content.

But Useem and Volokhine think even Amazon and Alphabet's Google could feel the spinoff pressure.

Google's autonomous car business Waymo, "could be valued at $100 billion," said Volokhine. "Even for Google, it's a lot of money."

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