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Corporate Giants Pressed to Sell, Spin Off Units

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worth of subsidiaries and business lines so far this year, just behind 2007's record-setting pace, according to data provider Dealogic. Some companies are moving in the opposite direction, such as with AT&T Inc.'s $49 billion deal to buy satellite broadcaster DirecTV. Still, the pressure has changed the tone of discussions in the boardroom, where directors and executives are taking a closer look at their portfolio of businesses.

Activist investor Trian Fund Management LP, which has successfully pressed for the breakup of companies as diverse as Kraft, Wendy's and Ingersoll-Rand PLC, argues that companies now have to earn the privilege of being a conglomerate. Its point is that diversifying rarely pays off, an argument it is pushing at Pepsi and chemical giant DuPont Co.

Both of those companies are resisting the split-ups Trian wants, though DuPont has announced a plan to separate a unit that makes up about 20% of its revenue.

Trian's argument has some support in the data. Shares of North American conglomerates underperformed their more focused rivals by 11.4% on average from 2000 to 2010, according to a study from Anil Shivdasani, a finance professor at the University of North Carolina Kenan-Flagler Business School. Shares of companies that announced a spinoff outperformed peers by 6% in the three months around the announcement. Professor Shivdasani said Monday the data remained similar through the end of last year.

H-P's stock rose 4.7% on Monday after the company said it would split into two companies, one consisting of its personal-computer and printer businesses, the other selling computer servers, data-storage gear, software, consulting operations and other services for corporate-technology departments.

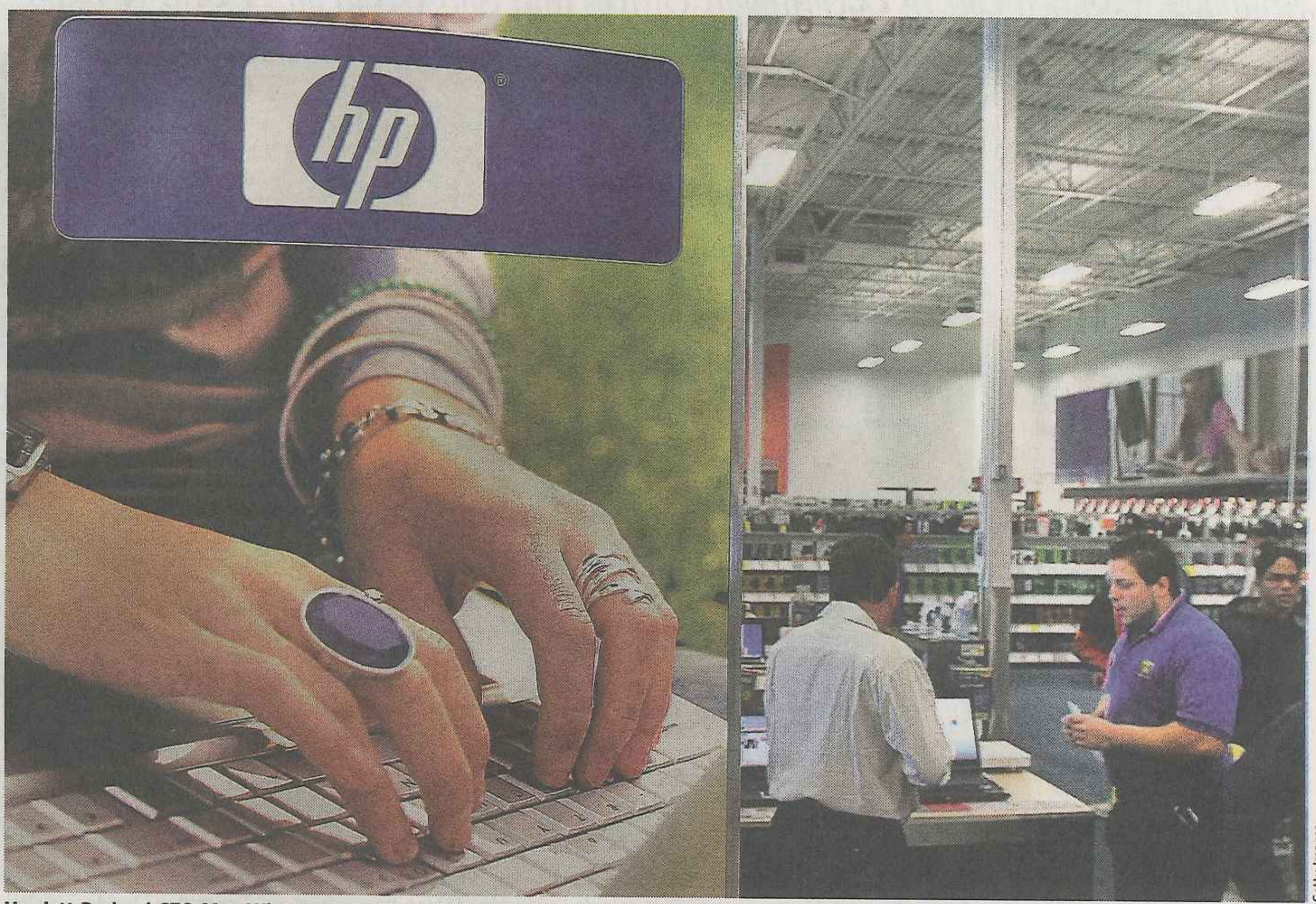
Chief Executive Meg Whitman said Monday that the two companies will be on very different courses. The new PC and printer business, HP Inc., will be milked for cash that will be earmarked for returns to stockholders. The other, Hewlett-Packard Enterprise, which Ms. Whitman will run, will focus on growth through a faster pace of investment in new products and through acquisitions, H-P executives said on a conference call with analysts.

That sort of split is typical in corporate breakups. Gannett Co. and News Corp., publisher of The Wall Street Journal, made similar decisions in separating their print-publishing businesses from faster-growing television or film businesses.

It doesn't always work as expected. When ITT Corp. divided itself into three separate companies in 2011, hopes were especially high for one of those spinoffs, Xylem Inc., which makes pumps, valves and water-treatment equipment. But revenue growth has been sluggish since then, partly due to weakness in Europe and slow sales to public utilities.

Since the spinoff, Xylem's shares have risen about 36%, while the S&P 500 has climbed 53%. Revenue, which was about flat in 2012 and 2013, will grow by as much as 3.7% this year, Xylem has projected. The company also has said it would benefit long-term from global population growth, water scarcity and environmental concerns.

Meanwhile shares in ITT, which supplies brake pads for cars along with pumps used in oil, gas and chemical production, have nearly tripled since the split. "We're a lot closer to these businesses than we were previously," said Chief Financial Officer Thomas Scalera, explaining the benefits of the split. "If we see things not going a certain way, wecan move in and take action a lot sooner."



Hewlett-Packard CEO Meg Whitman said Monday the two companies will be on very different courses. Above, an ad for H-P in a Best Buy store.

A classic split-up story involved Philip Morris. In an effort to diversify, the tobacco company acquired Kraft Foods in 1988. But the company, now called Altria, spun Kraft fully off to shareholders in 2007 and a year later spun off its international operations as Philip Morris International. In 2012, Kraft separated from its faster-growing global snacks operations, Mondelez International Inc.

Today, Altria and its progeny have a combined market capitalization of $315 billion, up 71% from 2007, before the Kraft spinoff. By contrast, the S&P 500 has gained 38.5% during that period.

One big company that has long defied the trend toward more focus is 3M Co. The St. Paul, Minn.-based company produces adhesives, abrasives, coatings and films used in thousands of industrial and consumer applications. Its vast array of products includes Scotch tape, films used to brighten computer screens, adhesives used in making cars, and electronic book-tracking systems for libraries.

The question of breaking up 3M hardly ever comes up in discussions with investors, partly because 3M has been a very consistent generator of profits, said Jeffrey Sprague, managing partner of Vertical Research Partners in Stamford, Conn. The company has increased its dividend in each of the past 56 years. 3M shares are trading at about 17 times estimated earnings for 2015, compared with 15 times for General Electric and United Technologies Corp., Mr. Sprague said. "It's hard to make an argument that you need to do any kind of radical surgery," he said.

General Electric also remains a defender of the model. Chief Executive Jeff Immelt says GE is able to spread the wealth of its research-and-development operations across disparate businesses—such as using similar technological advancements to improve efficiency in its jet engines, gas-power turbines and locomotives.

Still, GE has responded to investor discontent and a long-dormant stock price by shedding elements of what Mr. Immelt has branded "noncore" businesses. In recent years, Mr. Immelt sold off NBCUniversal, cut a deal to exit the appliances business and oversaw an initial public offering of the company's retail-finance operations at GE Capital.

GE's stock remains stuck near $25 a share, down 10% this year, and some on Wall Street want the company to go further. Scott Davis, a research analyst at Barclays Capital, said earlier this month that investors increasingly want GE to shed its $18 billion health-care business, and that GE should at least evaluate the possibility of breaking itself up.

On Monday, GE announced a new chief for its health-care business, and Mr. Immelt reiterated that it is a core part of the company.

"The thesis of trying to optimize shareholder value by either splitting off or maintaining a commingled business is one that is debatable by company," said David Haffner, CEO of Leggett & Platt Inc., a manufacturer of furniture, automobile components and other products such as drawn steel wire. "My concern is that if we were to split our businesses apart, it wouldn't necessarily improve profitability. Contrarily, I think that it would increase the amount of overhead and cost of oversight."

Finance researchers say investors tend to put a "diversification penalty" on companies that try to do too much. Announcing a spinoff typically boosts to the

The new push to break up conglomerates is unusually forceful, driven by activist hedge funds.

parent company's stock by about 3.3% better than market returns, according to an analysis of existing research compiled by Dartmouth finance professor B. Espen Eckbo and Karin S. Thorburn of the Norwegian School of Economics in Bergen.

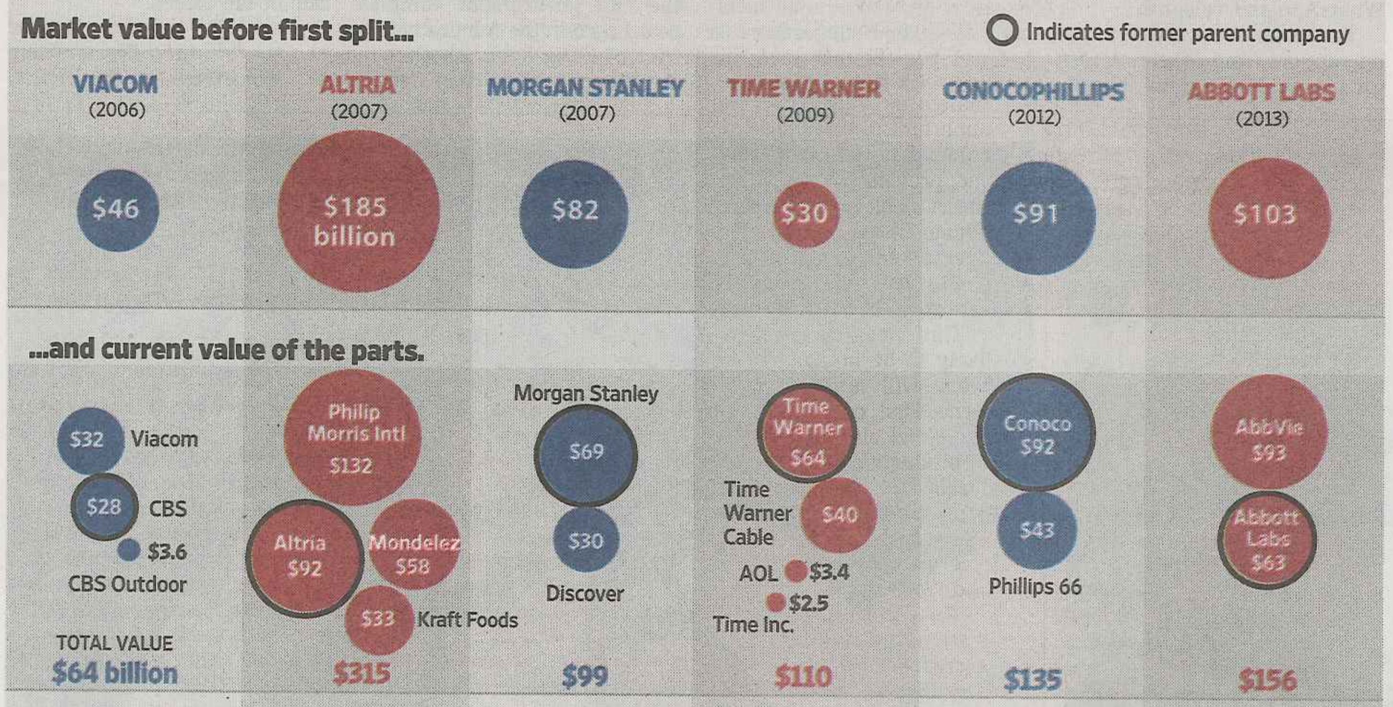
Longer term, the results are less clear. Across 166 spinoffs since 1980 in which a parent company with revenues of $1 billion or more sold a unit to investors through an IPO, returns have roughly matched the market, says Jay Ritter, a University of Florida finance professor who tracks IPOs. Recent studies of other spinoffs arrive at similar conclusions.

The trend is good for Wall Street. According to Dealogic, corporate breakups have produced a bonanza for investment banks—$9.4 billion in fees so far this year.

—Bob Tita, Dana Mattioli and Ted Mann contributed to this article.

After the Breakup

Companies are opting—or being pressured—to split up and narrow their focus. But are investors better off?
A sampling of high-profile splits in the past decade:



CHANGE:	Viacom	Altria	Morgan Stanley	Time Warner	ConocoPhillips	Abbott Labs
SINCE SPLIT	39%	70%	21%	267%	48%	51%
IN S&P 500	58%	39%	31%	141%	41%	38%

Source: FactSet (market caps); Dealogic (splits)

The Wall Street Journal