

J&J's Consumer Unit Spinoff Faces Rocky Route to IPO: ECM Watch

By Drew Singer / Bloomberg News / July 22, 2022

[Johnson & Johnson](#) said this week it is considering an initial public offering for its consumer unit. Investors may not be so keen.

J&J could carry out an IPO, Chief Financial Officer [Joseph Wolk](#) told [Bloomberg Markets](#) Tuesday, or the company could do a separation that leaves the unit entirely in the hands of its current shareholders and avoids the taxes involved in a public offering.

The latter choice looks easier given the current conditions. The tax-free route would provide J&J with more flexibility to execute the separation by avoiding worries about timing rocky markets, said [Jim Osman](#), founder of The Edge Consulting Group.

“With somber market conditions, an IPO might lead to an overestimate of valuation by management and underappreciation by investors,” Osman said. “Investor losses could be avoided in a spinoff.”

The tax-free separation would give all of the stock to existing investors who are more likely to agree with management’s view of its valuation. New investors might also oppose the amount of debt that J&J will potentially share with its spinoff, Osman said.

The pharmaceutical company [GSK Plc](#) chose a tax-free [spinoff](#) for its consumer arm [Haleon Plc](#) this week, something that Wolk cited when discussing J&J’s options on Bloomberg TV.

It’s part of a [broader trend](#) in which traders favor spinoffs over IPOs. The Bloomberg US Spin-Off Index is down 20% this year, compared with an average slump of 36% in US IPOs priced over the past 12 months. Spinoffs are also beating the Nasdaq Composite Index’s 23% drop in 2022.

The choice of tax-free spinoffs over IPOs is just one of the reasons business is drying up for syndicate desks this year. The [near-standstill in stock issuance](#) reflects investor fears about taking on risk as interest rates rise.

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