

J&J's Kenvue IPO Shows Rivals How to Spin Off Profits: ECM Watch

By Drew Singer / Bloomberg News / April 26, 2023

The spinoff of Johnson & Johnson's consumer health business is the latest example of conglomerates looking to unlock value as investors flock to smaller, more nimble companies in a market environment more focused on profits than revenues.

The company, which will be known as Kenvue Inc., set the price range Monday for an initial public offering that values the business at almost \$43 billion based on the top end of \$20 to \$23.

That valuation is in line with the estimate of Guggenheim analyst Vamil Divan, while special situations research firm The Edge Consulting Group sees room for investors to profit from the offering.

"We like the IPO," which may offer an example for Bayer AG, Sanofi and other companies looking to split off their consumer-health businesses, said The Edge CEO Jim Osman. He has a \$29.55 base-case price target on the stock.

The IPO investing environment today is very different than it was in the decade through 2021, mostly due to the Federal Reserve's interest-rate hikes to curb inflation. When rates were lower, investors were more interested in sales growth than earnings.

Kenvue's IPO could raise \$3.5 billion, the most since Rivian Automotive Inc.'s \$13.7 billion offering in November 2021, bringing a much-needed jolt to the moribund market. Just \$4.1 billion has been raised by IPOs on US exchanges this year, a drop from roughly \$15 billion a year ago, data compiled by Bloomberg show.

The separate company is expected to debut on May 5, according to terms reviewed by Bloomberg, following similar moves like GSK Plc's spinoff of consumer-health unit Haleon in July. That consumer company has climbed 14% since its debut, while GSK is down 14% over the same stretch.

Kenvue will be home to dozens of well-known brands, including Tylenol, Listerine, Neutrogena and Nicorette. In the deal's roadshow presentation, executives touted the Skillman, New Jersey-based company's position as the world's largest pure-play consumer health firm with revenue of almost \$15 billion for the year ended Jan. 1.

Read more: [J&J's Kenvue IPO Sets Up Future Tax-Free Distribution](#)

Once the IPO is priced, J&J will own 92% of Kenvue's shares.

For J&J, the spinoff will put the focus on its pharmaceutical and medical device business, likely starting with acquisitions or licensing pacts, analysts say.

"The pharmaceutical business is dragging down the stock's multiple because of patent exclusivity issues, says Jared Holz, a healthcare sector specialist at investment bank Mizuho. "So the way to combat that is through some external business development."

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