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Kenvue Success Puts Pressure on Peers With Consumer Health Arms

By Bailey Lipschultz / Bloomberg News / May 17, 2023

A strong trading start for Kenvue Inc. — the unit of Johnson & Johnson that makes brands including Tylenol — is showing similar pharmaceutical giants the benefits of spinning off their consumer health divisions.

The stock's 23% rally in just two weeks after its $4.4 billion initial public offering on May 3 is a dramatic demonstration of investor demand for profitable businesses amid a dearth of traditional IPOs.

The success could very well drive J&J peers like Sanofi and Bayer AG to separate their consumer businesses. Kenvue's shares are now valued at a higher earnings multiple that's more in-line with the makers of popular household products like Colgate-Palmolive Co. and Procter & Gamble Co., indicating that there's value to be unlocked in these businesses.

"If you look at some of the bigger consumer health companies out there — Colgate or P&G — those trade at higher multiples than J&J or Pfizer," Morningstar analyst Damien Conover said.

It's a sentiment shared by Jim Osman, founder of special situations research firm The Edge Consulting Group. He considers Kenvue "an ideal example" for the trend of large companies using IPOs as a preferred route "to divest their divisions."

It's also profitable for the investors, delivering outperformance relative to corporate peers, according to a research report from Goldman Sachs and EY. An analysis of more than 160 transactions showed splits led to "an average blended excess return of approximately 6% over the respective sector indexes for the period of two years post-close of transaction," the firms showed.

After completing the IPO, J&J still owns about 90% of Kenvue. The remaining stock will be distributed to existing shareholders later this year, enabling them to cash in on the post-IPO rally.

Bayer has been resistant to investors pushing for a breakup, while Sanofi seems more amenable and could follow J&J's path, writes Bloomberg Intelligence's Diana Gomes. Bayer, the maker of Alka-Seltzer and Claritin, saw self-care product sales increase by 4.1% in the first three months of the year, while Sanofi's unit, which sells IcyHot and Allegra, posted an 11% jump in sales.

Spinoffs at Bayer and Sanofi would likely lead their separate units to trade more in-line with the likes of Nestle SA, Unilever Plc, Herbalife Nutrition Ltd. and Procter & Gamble, analysts said.

"A nice healthy backdrop and increase in valuation does showcase that the demand is there, and that could spur some of these other firms to divest their units," said Morningstar's Conover.

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