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Is 2022 the year of the corporate breakup?

BY **SHERYL ESTRADA**

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Good morning,

Not all business breakups are the same.

Kellogg announced on Tuesday its plans to spin off its U.S., Canadian, and Caribbean cereal and plant-based businesses, resulting in three independent public companies. Meanwhile, according to reports, EY plans to split its audit and consulting businesses.

However, EY's decision has less to do with traditional breakups of conglomerates like Kellogg, Shane Goodwin, Ph.D., associate dean for Executive Education and Graduate Programs at the Cox School of Business at Southern Methodist University, told me. "It has to do with continued scrutiny by regulators (SEC) about 'conflicts of interest,'" Goodwin says.

Regulators have "started a sweeping investigation of conflicts of interest at the nation's largest accounting firms, asking whether consulting and other non-audit services they sell undermine their ability to conduct independent reviews of public companies' financials," he explains. This has been a question since the Big Four firms all started getting into non-audit service, Goodwin says.

EY's split of businesses would be the "largest shake-up in the accounting industry since Arthur Andersen's collapse 20 years ago," according to Bloomberg Law. Internal documents distributed to top EY executives in May and obtained by The Wall Street Journal point to the firm believing its audit business and consulting business (tech, taxes issues) could grow faster and be more profitable on their own. The consulting business would go public "hoping to sell a stake of around 15% of the company for more than $10 billion while borrowing $17 billion," the WSJ reported.

"EY is currently privately owned by the partners—they are the investors," Goodwin told me. "A separation could allow each business unit to flourish and grow without restrictions."

Meanwhile, Kellogg, a conglomerate and public company, is undergoing a split "expected to create more value for all stakeholders," Steve Cahillane, Kellogg's chairman and CEO, said in a statement on Tuesday. “After several years of transformation and improving results, the company believes it is the right time to separate these businesses so they may pursue their particular strategic priorities," Cahillane said.

The three independent companies are tentatively called: "Global Snacking Co." (about $11.4 billion in net sales); "North America Cereal Co." (about $2.4 billion in net sales), and "Plant Co." (about $340 million in net sales). The breakups are estimated to be completed by the end of next year.

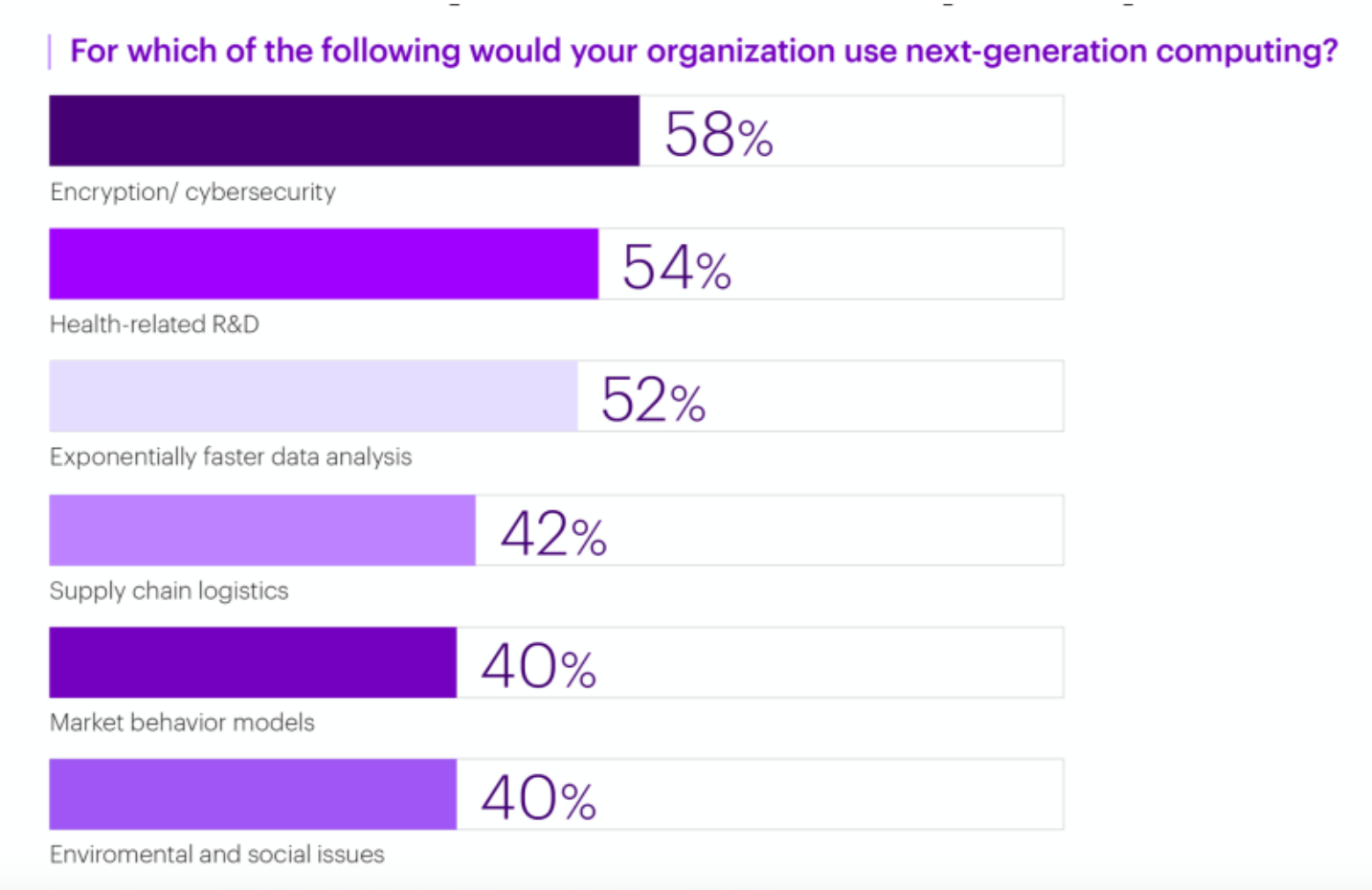
The "Global Snacking Co." will comprise international snacks, noodles, and frozen breakfast, which represented 80% of Kellogg's net sales in 2021. “This is a mega trend that people are less often eating meals and more often snacking,” Sarah Henry, managing director and portfolio manager at Logan Capital, told me. "So the thought obviously on the part of management is to illuminate the value of each of the different units," Henry says. “So from that standpoint, the view is that investors will hopefully see the value of the snacking company.”

But the "reality is that all of these businesses are good providers of stable growth over time,” she says. “Management clearly felt that the opportunity was there to grow the whole pie by splitting it up.”

Kellogg joins other conglomerates like General Electric and Toshiba that announced breakup plans in November. This trend will likely continue as companies target and streamline operations to what consumers want and as businesses practice more discretion on spending, Henry says.

See you tomorrow

The metaverse is set to affect the business world and health care. Accenture’s Digital Health Technology Vision 2022 report found that 81% of health care executives expect the metaverse to impact the industry positively. Another technology trend highlighted in the report is the use of quantum computing, which “can enable healthcare executives to test different scenarios and find complex dependencies much faster,” according to Accenture. The top three uses for this “next-generation” type of computing: Encryption/cybersecurity (58%), health-related research and development (54%), and faster data analysis (52%). The findings are based on a survey of 391 healthcare executives across 10 countries.



Courtesy of Accenture

Going deeper

How the Real Economy Gains— and Loses—with Better-informed Investors, a new Wharton business journal report, explores how making corporate disclosures widely available benefits investors and companies. But research also finds it can also have unintended downsides.

Leaderboard

Ron Blaustein was named SVP and CFO at Underwriters Laboratories Inc., a global safety science company. Blaustein comes to Underwriters Laboratories from the Ann & Robert H. Lurie Children's Hospital of Chicago, where he served as SVP and CFO since 2014. He was named CFO of the Year in 2019 by Financial Executives International. Blaustein first joined Lurie Children's hospital in 1997 after beginning his career at PwC.

Pamela Boone was named CFO at Cambridge Associates, a global investment firm. Boone joins Cambridge Associates with more than 30 years of experience in leadership roles across global capital markets, operations, financial reporting, controllership, accounting and auditing. Prior to joining Cambridge Associates, Boone spent nearly two decades at State Street, where she held various roles.

Overheard

"It's not our intended outcome at all, but it's certainly a possibility."

—Federal Reserve Chairman Jerome Powell admitted that aggressive interest rate hikes could spark a recession during the Senate Banking Committee on Wednesday in response to a question from Sen. Jon Tester, a Democrat from Montana, *Fortune* reported.

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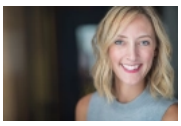

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