How CFOs can turn corporate separation into a growth strategy

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By proactively identifying corporate separation opportunities, CFOs can unlock shareholder value.

In brief

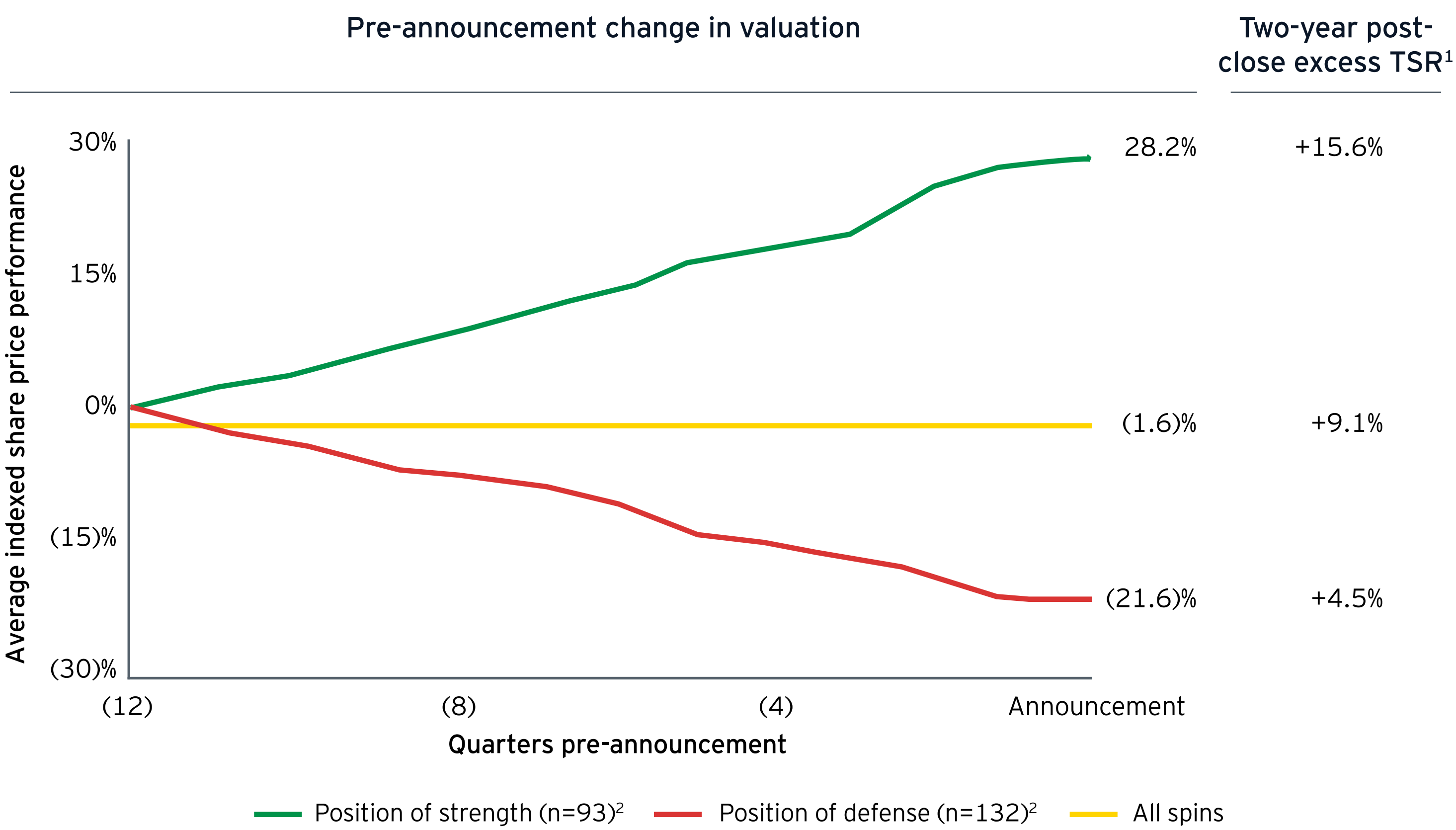
- Corporate separations can generate substantial value even when a company is performing well, challenging the usual view of separations as a defensive move.
- CFOs can help organizations seize these opportunities by establishing metrics to identify separation opportunities in regular portfolio reviews.
- Managing onetime operational costs, reducing organizational entanglement and utilizing careful planning can help facilitate a smooth transition for the new entity.

Corporate separation has long been a powerful tool for unlocking shareholder value. Over the past decade, spin-offs, carve-outs and divestitures have generated more than $1.2 trillion in value, with 70% of these announcements resulting in day one market outperformance. Notably, post-2020 deals have delivered an average excess total shareholder return (TSR) of 12%. Yet separations are often framed as reactive responses to external pressures or underperformance.

A 2025 EY and Goldman Sachs study robustly challenges this view. According to an analysis of more than 200 transactions since 2012, companies initiating separation from a position of strength, with positive sector-indexed share price performance in the three years pre-announcement, achieved 15.6% excess TSR two years post-close. This compares with just 4.5% for those acting defensively.

Chief financial officers (CFOs) are in a unique position to help companies embrace separations as a value driver by advocating for separation as a proactive, repeatable strategy focused on growth and multiple expansion. By identifying opportunities, building compelling business cases and integrating separation strategies into the corporate playbook, CFOs can leverage separations not only in times of crisis but also as a consistent engine for growth and transformation.

Companies separating from a position of strength generate greater excess TSR



Source: FactSet, public company filings.

Database includes ~200 separation transactions that have closed since 2012 with a market cap of more than $1 billion. Note: Past performance is not indicative of future results.

[1] Excess total shareholder return is defined as the change in the company's equity value plus dividends paid out over the same period, starting with the day before announcement for ParentCo and the two years following close for RemainCo and NewCo. On a blended basis, companies are indexed against specific S&P 500 sector benchmarks. For separations with less than two years of data, performance is cut at March 1, 2025.

[2] Position of strength is defined as companies with positive sector-indexed share price performance in the three years leading up to the announcement. Position of defense is defined as companies with negative sector-indexed share price performance in the three years leading up to the announcement.

Identifying corporate separation opportunities

Traditional metrics to identify separation opportunities have focused on operating margins, TSR, return on invested capital (ROIC) and earnings per share accretion/dilution.

To support proactive separation, CFOs should instead use forward-looking metrics that reveal valuation gaps; selling, general and administrative (SG&A) inefficiencies; and transformation potential. The following metrics can assist CFOs in diagnosing and creating a business case for separation.

Metric	Relevance	How to measure	Example/case study
Capital velocity gap How fast a business unit (BU) converts incremental invested capital into incremental free cash flows compared with the parent company and peers	Persistent low velocity suggests capital trapped in slow loops. A spin-off can free capital to higher-velocity cores.	(A) Divide the change in free cash flow (FCF) by the change in invested capital for each BU over a 12- to 24-month period and compare these results with the corporate average and sector median. (B) Assess the time to market for new products, the percentage of product releases delivered on schedule and procurement cycle times against peer benchmarks.	**Western Digital, SanDisk (2025)** The hard disk drive (HDD) business had slower, more stable cash cycles than the higher-velocity, higher-investment flash business (SanDisk). Separation allowed SanDisk to invest aggressively in flash R&D, while Western Digital could focus on the stable, high-capacity HDD business, particularly serving the hyperscale cloud and AI markets.
Strategic focus and alignment Whether a BU is aligned to the company's future growth vectors and adequately funded to realize its innovation potential	Misaligned BUs can distract from core strategies, trigger investor skepticism about fit and reduce valuation multiples.	(A) Determine the percentage of each BU's revenue or earnings before interest and taxes (EBIT) that is aligned with strategic pillars (e.g., artificial intelligence (AI), sustainability, platforms). (B) Evaluate R&D and capex funding in relation to each BU's revenue or EBIT share.	**IBM, Kyndryl (2021)** The legacy, low-growth managed infrastructure business (Kyndryl) was misaligned with IBM's strategic focus on hybrid cloud and AI. The spin-off allowed IBM to shed noncore assets and invest capital more heavily in its innovation-centric businesses, such as software and consulting, while Kyndryl gained the autonomy to pursue its own growth strategy in infrastructure services.

(Continued)

Metric	Relevance	How to measure	Example/case study
Customer synergy/fit friction How much real cross-sell exists between BUs vs. assumed synergies	If customers do not buy across BUs and channel conflicts exist, separation may be warranted.	(A) Calculate the overlap ratio, which is the percentage of customers from one BU who also purchase from a separate BU. (B) Measure the incremental margin generated from cross-selling between BUs. (C) Analyze the net promoter score (NPS) difference between the parent brand and the BU brand.	**GE, GE Aerospace, GE HealthCare, GE Vernova (2023–24)** GE's various businesses served distinct customer universes with little crossover, from commercial airlines (Aerospace) to hospital systems (HealthCare) and utilities (Vernova). The split allowed each independent company to focus on its specific customer needs and market dynamics.
Valuation multiple compression Whether the market applies a group discount because BUs with different profiles are bundled together	A persistent gap indicates that the corporate narrative is muddled; separation can trigger a rerating. EY-Goldman Sachs data shows that more than 75% of separations show a 2.0x+ multiple disparity between the new company and the company that remains after separation, indicating investor appetite for pure play exposure.	(A) Use a sum-of-the-parts (SOTP) approach by applying peer enterprise value; earnings before interest, taxes, depreciation and amortization (EBITDA); or price-to-earnings ratios to each BU and comparing these to the overall group trading multiple. (B) Track any discrepancies.	**eBay, PayPal (2015)** PayPal, a rapidly growing FinTech business, was constrained within eBay's marketplace structure, potentially limiting its valuation multiple. The spin-off allowed PayPal to operate independently and be valued as a pure play payments company, leading to a substantial increase in its market capitalization.

Instituting regular corporate separation reviews

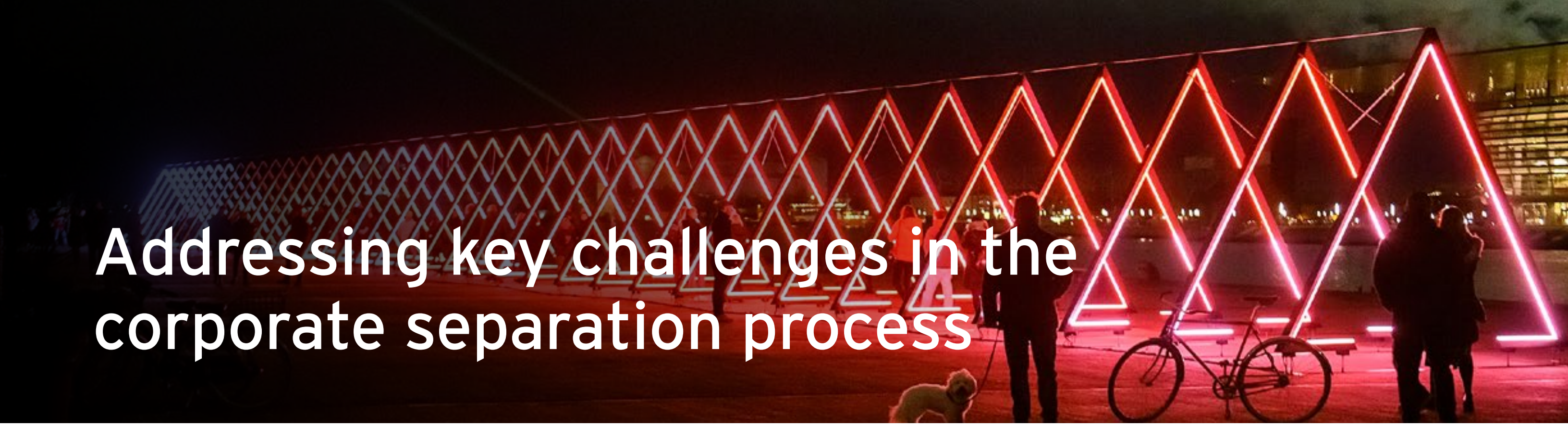
To embed separation as a proactive, repeatable lever, CFOs should champion regular separation reviews as part of their portfolio strategy and capital planning.

CFOs can start by integrating forward-looking metrics, such as capital velocity gap and innovation funding gap, into strategy sessions and portfolio reviews. Initially, ad hoc alerts or one-off analyses can help build confidence and demonstrate value.

The following four areas represent essential steps in a structured process for proactively identifying and evaluating potential corporate separations:

1. **Cadence:** Introduce a "separation watch list" segment in quarterly portfolio reviews and hold monthly CFO-led working sessions with strategy, financial planning and analysis, corporate development, and investor relations to update metrics and judgments.
2. **Metrics:** Apply a minimal set of forward-looking indicators, such as capital velocity gap, SOTP vs. group multiple, innovation funding gap, customer fit and entanglement readiness, to flag outliers without overwhelming reporting processes.
3. **Triggers:** Monitor for persistent multiple gaps, unfavorable velocity/funding, low customer overlap or strategic misalignment as signals to escalate.
4. **Decision gates:** Transition through several stages, starting with screening (creating a watch list), then moving to scoping (developing a two-page overview), followed by shaping (evaluating options and estimating costs and entanglements), and finally reaching the sponsorship stage (seeking approval from the executive leadership team or board).

As these reviews gain traction, CFOs can advocate for making them a standard part of the corporate playbook, so separation opportunities are routinely identified and evaluated.



Addressing key challenges in the corporate separation process

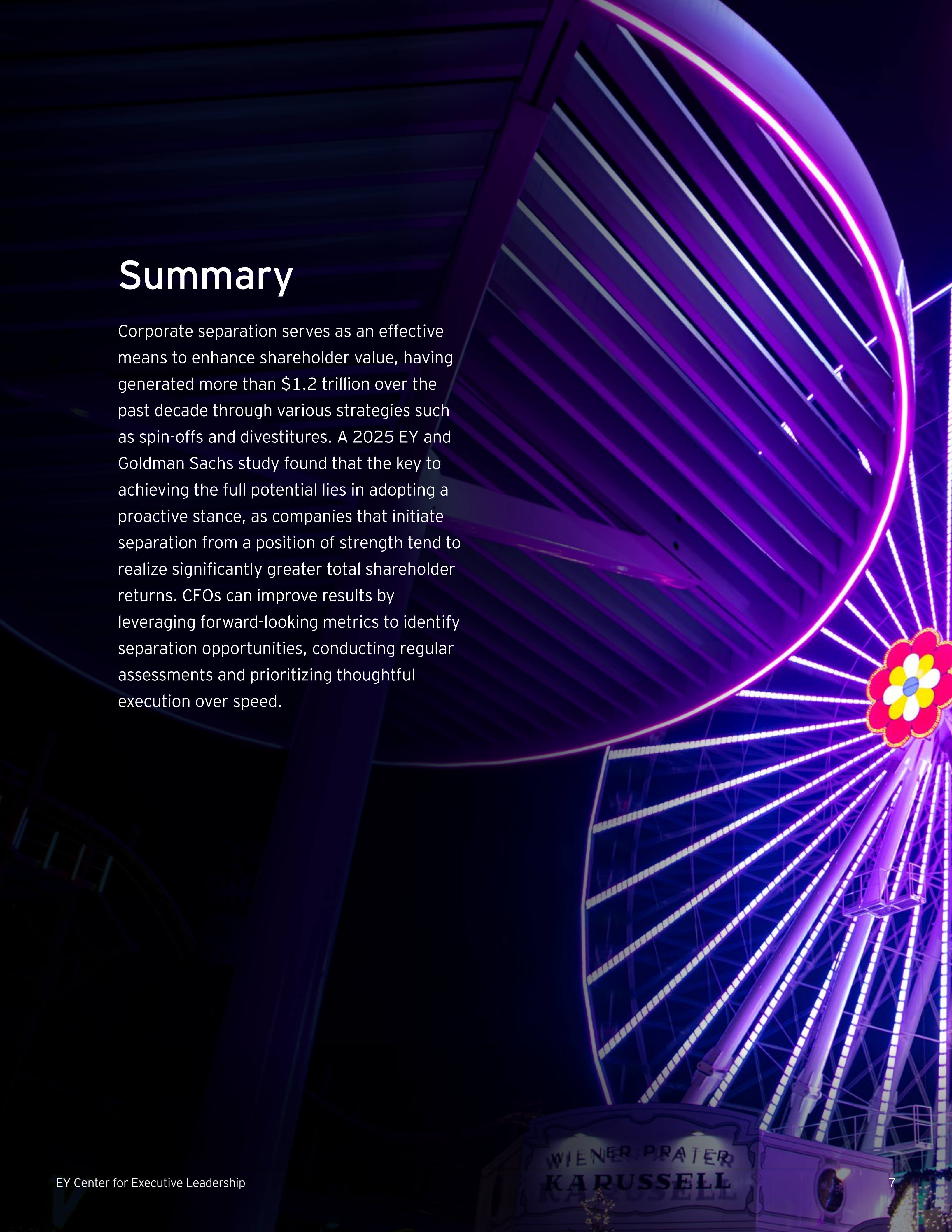
Effectively managing the separation process is crucial for a smooth transition and expanding value. One of the primary considerations for CFOs is the management of onetime operational costs.

These costs typically range from 2% to 6% of the new company's equity value, with a median of 3% across all separations. For new companies valued at more than $10 billion, this figure tends to be around 2%. Notably, IT carve-outs can account for 30% to 50% of total operational expenses. To mitigate these costs and risks, CFOs should prioritize strategic architecture choices, such as adopting cloud-first infrastructure and establishing robust IT governance frameworks. Implementing AI-driven reporting and clearly defined transition service agreement (TSA) scopes can further enhance efficiency during the separation process.

Another critical aspect is addressing organizational entanglement, as the structural complexity of the separation often dictates its ultimate success and growth trajectory. For highly entangled businesses, EY-Goldman Sachs data indicates that the average onetime cost can reach 6.2%, with modest revenue growth of only 2.2% over two years. In contrast, independent businesses with fit-for-purpose strategies tend to achieve significantly better outcomes, with average costs of 3.0% and revenue growth of 12.9%. Leaders must carefully assess the degree of business entanglement and overall organizational readiness before initiating the separation process. CFOs should quantify entanglement by baselining shared applications, data domains, plants and personnel, assigning costs and lead times to each component. This helps prepare the new company to operate independently from day one with limited reliance on TSAs.

Finally, prioritizing design over speed is essential for a successful separation. The EY-Goldman Sachs study shows a low correlation between execution timeline and outperformance, emphasizing that thoughtful, well-structured execution is more important than raw speed. Leaders should focus on meticulous planning of the separation, clearly defining the specific components being separated, such as products, teams and systems. Establishing an interim operating model for the new company and planning the sequence in which IT systems and data will be separated is vital to avoid disrupting critical functions. The CFO can support this process by creating scenarios for duration economics; developing three duration scenarios (base, slow and fast); and illustrating value sensitivity in terms of TSR, cash flow and SG&A run rate.

With a clear understanding of capital allocation, investor sentiment and operational dynamics, the narrative around corporate separation can be transformed from a defensive maneuver into a proactive growth strategy. By conducting regular separation assessments grounded in well-defined metrics and supporting separations through careful execution, CFOs can drive sustainable growth and unlock shareholder value regardless of the company's current position.



Summary

Corporate separation serves as an effective means to enhance shareholder value, having generated more than $1.2 trillion over the past decade through various strategies such as spin-offs and divestitures. A 2025 EY and Goldman Sachs study found that the key to achieving the full potential lies in adopting a proactive stance, as companies that initiate separation from a position of strength tend to realize significantly greater total shareholder returns. CFOs can improve results by leveraging forward-looking metrics to identify separation opportunities, conducting regular assessments and prioritizing thoughtful execution over speed.

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