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**THE WALL STREET JOURNAL**  
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BUSINESS | JANUARY 13, 2011

## ITT Plans Breakup as Bigness Loses Favor

By JAMES R. HAGERTY, GINA CHON And ANUPREETA DAS

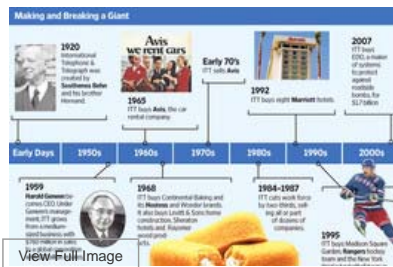
ITT Corp. said it plans to break itself into three more-specialized companies, marking another stage in the dismantling of conglomerates that were once stock-market darlings but have lost favor in an era when investors tend to value focus.

The breakup plan for the 90-year-old company, once the epitome of industrial diversification, came amid pressure from some of its shareholders, who were dissatisfied with its performance and its stock price.

Over the past two decades, many investors have grown disenchanted with the notion that some executives are capable of running a vast array of businesses simultaneously. In ITT's case, those businesses once ranged from Sheraton hotels and Hartford Insurance to the maker of Wonder bread and Hostess Twinkies. The breakup unveiled Wednesday is its second major splintering in the past 16 years.

"Companies generally are not very efficient diversifiers," said Barry Knapp, head of U.S. equity strategy at Barclays Capital in New York. "Investors usually can do a better job of that" by purchasing stock in a variety of companies.

Wednesday's announcement, which prompted a 17% leap in ITT's stock price, could put pressure on other conglomerates, such as [Illinois Tool Works Inc.](#) and [Tyco International Ltd.](#), at least to consider spinning off some operations, some Wall Street analysts said.



A spokeswoman for Illinois Tool Works said the company isn't considering selling any of its major businesses, which include industrial packaging, construction tools, food-service equipment and adhesives. A Tyco spokesman said the company already has focused itself on three core businesses through spinoffs and sales of operations.

Other diversified companies recently have been breaking into more specialized parts. In December, [Fortune Brands Inc.](#) announced plans to spin off its home-and-security business and spin off or sell its golf division, while continuing to run its liquor business as a publicly traded entity. [General Electric Co.](#) plans to sell its 51% stake in NBC Universal, a producer of television shows and movies, to [Comcast Corp.](#)

ITT's blueprint calls for it to divide itself before the end of the year into three publicly traded companies, through a tax-free spinoff of two of its businesses to shareholders. The shareholders would then have shares in ITT Corp., which would retain a range of industrial lines, including pumps, valves, shock absorbers and brake pads; a company making equipment used in transporting, testing and treating water; and a company selling military equipment for such uses as night vision, electronic warfare, radar, reconnaissance and satellite imaging.

ITT said the massive restructuring would help it "unlock" value in the various businesses and make them "more nimble."

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By announcing the plan, said people familiar with the matter, ITT likely avoided a proxy fight with Relational Investors LLC, which had threatened such a battle. In November, the investment fund nominated three directors to the company's board, one of whom was intended to replace ITT Chairman and Chief Executive Steven Loranger.

In a Nov. 24 letter to ITT, Relational co-founder Ralph Whitworth wrote that the fund was nominating Mr. Whitworth, fellow co-founder David Batchelder and Relational principal Jay Winship to the board at ITT's 2011 annual meeting.

Relational, along with other investors, viewed ITT's stock as undervalued, dragged down by its defense business, people familiar with the matter said.

Relational was also skeptical of ITT's previously announced plans for more diversification. It wanted ITT to sell its defense unit and break up the rest of the company or keep it intact but not spend new capital on different lines of business. The two sides were to meet Thursday at ITT's White Plains, N.Y., headquarters to discuss the issue, the people familiar with the matter said.

Relational is satisfied with the planned breakup, but is still deciding whether to withdraw its director nominations, said a person familiar with the fund.

Mr. Loranger said in an interview Wednesday that the breakup had been under consideration for about six months and didn't stem from investor pressure.

The stock market's reaction suggests that to "de-conglomerate" is today's fashion, and CEOs are likely to take note of that, said Richard Sylla, an economics professor and financial historian at New York University's Stern School of Business.

Conglomerates "never made sense from the point of view of investors," Mr. Sylla said. "Investors could always buy a bunch of different stocks" if they wanted exposure to diverse businesses. Though many conglomerates promised superior management, they usually didn't deliver that in the long run, he added.

For the most part, conglomerates "were an unholy mix opportunistic investment bankers, misguided consultants and the vanities of CEOs," said Jeffrey Sonnenfeld, senior associate dean at the Yale School of Management. But he said it sometimes can make sense to combine businesses that rely on similar technology or are in markets that are starting to overlap.

Even some relatively focused companies are moving further in that direction. Earlier this month, Motorola Inc. split itself into [Motorola Mobility Inc.](#), a maker of smartphones and tablet computers for consumers, and [Motorola Solutions Inc.](#), which sells a variety of communications devices to companies and government agencies.

ITT's stock has lagged behind the market in recent months because of investor worries that lower U.S. defense spending will hurt its sales of military equipment. On Tuesday, before the announcement, ITT's stock was up about 4% from a year earlier. In the same period, the S&P 500-stock index gained 11%. In 4 p.m. composite trading on the New York Stock Exchange, ITT shares were up \$8.72 at \$61.50.

"ITT has some excellent assets but was just not getting credit" from them in the stock market, amid the defense worries, said Scott Davis, an analyst at Morgan Stanley. He said the company's water-treatment and desalination equipment will do well amid a global shortage of potable water.

As long as investors welcome such spinoffs, "that's an incentive for [more] companies to consider this," said Barclays's Mr. Knapp.

After battling for survival during the recession, many companies now are taking stock of their strategies, Mr. Knapp said. "There are a lot of companies doing a lot of strategic thinking about whether they are in the right spot," he said. If they find shareholders aren't rewarding them for having a diverse array of businesses, companies are more likely to look at spinoffs, he added.

For ITT—whose current stock-market value is about \$11.3 billion, up from Tuesday's \$9.69 billion—the breakup marks a long-running retreat from conglomeration. Founded in the 1920s to provide telephone service in Cuba and Puerto Rico, it became voraciously acquisitive in the 1960s under CEO Harold Geneen. At its peak, ITT owned companies building homes, providing Avis car rentals and making telephone gear, among many other things.

In the 1970s, ITT started to narrow its focus, but it continued to morph through acquisitions, including at one point a stake in the New York Knicks basketball team.

In June 1995, the company tried to follow the growing fashion for focused businesses by dividing itself into three companies: an insurer; a maker of automotive, defense and electronic items; and a hotel-and-casino operator.

Over the past five years, ITT has had generally rising profits, with a recession-related drop in 2009. The company has said it expects to report adjusted earnings per share of \$4.28 to \$4.32 for 2010, up 15% from 2009, and projects earnings growth of 7% to 12% for 2011.

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## Making and Breaking a Giant



**1920**  
International Telephone & Telegraph was created by **Sosthenes Behn** and his brother Hernand.



**1965**  
ITT buys **Avis**, the car rental company.

**Early 70's**  
ITT sells **Avis**



**1992**  
ITT buys eight **Marriott** hotels

**2007**  
ITT buys EDO, a maker of systems to protect against roadside bombs, for \$1.7 billion

**Early Days**

**1950s**

**1960s**

**1970s**

**1980s**

**1990s**

**2000s**

**1959**

**Harold Geneen** becomes CEO. Under Geneen's management, ITT grows from a medium-sized business with \$760 million in sales to a global corporation with \$17 billion in sales.



**1968**

ITT buys Continental Baking and its **Hostess** and Wonder brands. It also buys Levitt & Sons home construction, Sheraton hotels and Rayonier wood products.



**1984-1987**

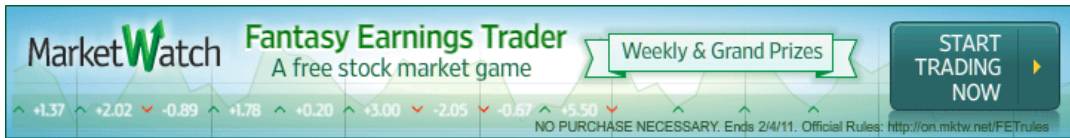
ITT cuts work force by two-thirds, selling all or part of dozens of companies.

**1995**

ITT buys Madison Square Garden, **Rangers** hockey team and the New York Knicks basketball team in partnership with Cablevision Systems Corp.



Photos: Corbis; Advertising Archive/Everett Collection; Associated Press (2); PRNewsfoto; Associated Press



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HEALTH INDUSTRY | JANUARY 13, 2011

## Big Firms Cast Wide Net, But Try to Focus

By BOB TITA And BOB SECHLER

The 1960s heyday of conglomerates may be over, but there are plenty of companies like **ITT Corp.** that make it their business to be involved in all sorts of unrelated activities.

Those conglomerates range from **General Electric Co.** (jet engines, washing machines, loans to medium-size companies) to **DuPont Co.** (seeds, Kevlar, countertops) to **Warren Buffett's Berkshire Hathaway Inc.** (machine parts, neon signs, Ginsu knives). But not all conglomerates are under the same sort of pressure as ITT to break up, and many are flush with cash and hunting for acquisitions.

Conglomerates "aren't going to go away," said Wayne Titcher, chief investment officer at AMBS Investment Counsel LLC, though he noted company-specific considerations could spur some to significantly adjust their lines of business.

GE had long been a target of investors and analysts who figured its pieces were worth more apart and pushed for some sort of division.

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[ITT Plans Breakup as Bigness Loses Favor](#)

That pressure has dissipated as GE has worked to better focus its operations around its industrial businesses. GE is shrinking GE Capital and is selling control of its NBC Universal media assets.

GE said Wednesday a breakup is out of the question. Chief Executive Jeff Immelt said at the company's investor meeting last month that he considers GE's portfolio of assets to be the best since he took charge in September 2001.

Conglomerates blossomed five decades ago, when favorable interest rates made it relatively easy to boost revenue and stock prices with serial acquisitions. But they fell out of favor when the stock increases slowed and investors began to question whether promised efficiencies would materialize.

Companies have since swung between diversifying through acquisitions and refocusing on core businesses via divestitures.

**Danaher Corp.** last year spun off its tools business into a joint venture with **Cooper Industries PLC**. **Emerson Electric Co.** sold its electric-motors business. **Tyco International Ltd.** sold its metals processing and distribution business after announcing plans to spin off the unit to shareholders as a separate company.

Acquisitions, however, are expected to ramp up now that the recession-era cost cutting has left firms with plenty of cash and relatively little debt. Conglomerates' net debt to market capitalization is at an all-time average low of 11%, according to Citi Investment Research. Meanwhile, cash holdings at conglomerates amount to 8% of their combined market capitalization.

**Illinois Tool Works Inc.** typically buys dozens of small and medium-size companies each year to expand its operations. The company currently has about 10 major business groups, including construction tools, auto parts, industrial packaging and food-service equipment.

The Glenview, Ill., conglomerate recently bought a number of brands of car wash, wax and other maintenance products to create a car-care business group. It wants to do enough deals to create six new industry groups in the coming years and is counting on those groups to meet its goal of revenue growth of at least 5% this year and next.

With almost 800 separate business units and a decentralized management system, observers say dismantling the company would be difficult. "It would not make sense," said Ajay Kejriwal, an analyst for FBR Capitals Markets & Co.

A spokeswoman for Illinois Tool Works said the company isn't considering selling any of its major businesses.

**3M Co.**, maker of thousands of products including Scotch tape, Post-it notes, and electronic stethoscopes, has diversified mainly through product development in its laboratories but also through acquisitions.

A spokeswoman for 3M said the company doesn't consider itself a conglomerate because most of its products rely on a common bundle of technologies.

Even so, some analysts worry 3M's increased reliance on acquisitions will create more financial risk as the company becomes even more diversified and harder to manage. "If you try to ramp up acquisitions too fast to get to a growth target, the chances of error increase," said Shannon O'Callaghan, an analyst at Nomura Securities International.

Under Mr. Buffett's control, Berkshire Hathaway has become a holding company for companies including Dairy Queen, the Burlington Northern Santa Fe railroad and Geico insurance. But Berkshire, unlike ITT and other conglomerates, has rarely faced questions about whether the businesses it owns are better together than they are apart.

Jeff Matthews, founder of hedge fund Ram Partners and author of "Pilgrimage to Warren Buffett's Omaha," said it was largely because Berkshire stock has done so well—the "Buffett premium" attributed to faith in the company's CEO.

Mr. Buffett didn't respond to a request for comment left with an assistant Wednesday.

—James R. Hagerly and Erik Holm contributed to this article.

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HEARD ON THE STREET | JANUARY 13, 2011

## Still Not as Good as ITT Gets

By [LIAM DENNING](#)

In breaking itself up, [ITT Corp.](#) has found religion on value. But while analysts feverishly update their calculations of ITT's sum-of-the-parts, the future might well involve a sale of those parts.

Strategically, ITT has turned on a dime. In May, it was considering adding a "fourth leg" to the existing defense, water, and motion and flow businesses. Now it is dismantling the stool altogether. Little wonder the shares, long suffering a big discount to other industrial stocks, jumped 17% to \$61.50 Wednesday.

ITT says a twice-yearly review led to its decision and it had no specific discussions with potential buyers. Still, Wednesday's announcement clearly surprised. Nick Heymann, analyst at Sterne Agee, speculates ITT perhaps feared an unsolicited bid and moved first to bolster its valuation.

That offers hope for investors. Morgan Stanley values ITT's parts separately at \$60 per existing share, suggesting all the juice has been squeezed already. But in splitting, ITT has made it harder for a third party to come in with a low bid and realize that breakup value for itself, while also effectively putting its constituent parts in play.

ITT's water business looks a tempting target for the likes of [Siemens AG](#) and Sterne Agee reckons it could command an 18 times price/earnings multiple, valuing it at \$36 per current ITT share. Using Sterne's estimates, this would imply the remaining two divisions, also potential targets, are valued at just 7.5 times.

Whatever its cause, ITT's Damascene experience has set the ball rolling. But with the intervention of a strategic buyer or two, investors could reap more gains before ITT even reaches its destination.

**Write to** [Liam Denning](#) at [liam.denning@wsj.com](mailto:liam.denning@wsj.com)

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