

Vontier Spin-Off: Beware When You Are Promised Something For Free

Sep 16, 2020 | By Alex Gavrish, Etalon Capital Ltd; author of "Story Investing"

Fortive Corporation announced upcoming spin-off of Vontier Corporation. When-issued trading of Vontier common stock is expected to start on September 24th, 2020. Fortive will distribute 80.1% of Vontier: 2 shares of Vontier for every 5 shares of Fortive and will remain with a 19.9% stake.

On September 2nd, 2020, Morgan Stanley analyst [said](#) that investors are getting Vontier for 'free'.

When you hear that you are getting something for 'free' on Wall Street, alarm bells might ring.

Based on FY 2019 financials, Fortive currently trades at an EV/EBITDA valuation multiple of x21.4. We assume that Vontier will be valued at a lower multiple despite good free cash generation profile because it will distribute approximately \$1.6 bil to Fortive as part of the separation, its performance (based on H1 2020 pro-forma financials) is worse than in 2019, and it derives a majority of its revenue (70%) from retail fueling equipment and technologies, a business on which investors might cast a certain shadow of doubt given electric vehicle adoption trends.

At an EV/EBITDA multiple of x12 Vontier will have a market capitalization of approximately \$4 bil, net debt of about \$1.6 bil and an enterprise value of \$5.6 bil. Under this scenario, Vontier will trade at \$24.15 per share.

Fortive Corporation's valuation, post-distribution of Vontier shares, accounting for remaining stake in Vontier at its market price (above, \$24.15) and based FY 2019 results (subtracting Vontier's FY 2019 pro-forma financials) will jump to x32 EV/EBITDA.

Fortive share price therefore might decline by approximately 36% (this would bring its EV/EBITDA valuation multiple back to x21.4, using FY 2019 results). Even if Vontier shares will start trading at higher level and multiple contraction post spin-off will not be as drastic, Fortive shares might still be expected to decline.

We therefore think that investors definitely are not only not getting anything for free but on the contrary might lose from the spin-off process.