



So, You're Thinking About Resegmenting...

A valuable opportunity to better align
an organization with strategic and
operational priorities, enhance investor
understanding and transparency, and
unlock valuation potential

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In today's Thought Leadership, **we explore resegmentation**, a significant and complex initiative public companies undertake to reflect a change in the business model, streamline operations, or to enable a refined or revised strategic focus. While an immense undertaking, resegmentation offers a valuable opportunity to better align an organization with strategic and operational priorities, enhance investor understanding and transparency, and in some cases, unlock valuation potential.

Successful resegmentation requires meticulous planning and effective communication to avoid confusion and skepticism among the investment community. In this report, we'll outline best practices for preparing for and communicating a resegmentation, along with actionable guidance for executives and investor relations teams to consider throughout the process.

Setting the Stage: So, You're Thinking About Resegmenting...

Know Before You Go: Why Companies Resegment

Resegmentation can be a powerful strategic lever for public companies to pull as a means to evolve with market dynamics, emerging strategic priorities, and operational realities.

In general, public companies undertake resegmentation for several reasons:

- **Align Reporting with Evolution of Strategic Goals:** Businesses evolve over time, entering new markets, launching innovative products, or pivoting to emerging technologies. Resegmentation ensures that financial reporting accurately reflects these shifts, aligning with the company's current ways of working and strategic direction, including after meaningful acquisitions and divestitures.
- **Showcase Growth Drivers:** Segmentation that highlights high-margin or fast-growing business lines can unlock valuation potential by emphasizing these drivers to the investment community. In some cases, companies are inherently encouraging investors to apply higher multiples to parts of the business demonstrating greater growth potential
- **Streamline Operations:** Resegmentation often accompanies operational restructuring, such as consolidating redundant divisions following an acquisition or preparing underperforming units for future divestiture. This can signal a focus on efficiency and long-term value creation.
- **Enhance Transparency:** Investors and analysts require clear visibility into the performance of key business units. This can be particularly impactful when providing increased clarity around emerging business drivers or other key pillars of a company's investment thesis.

- **Improve Peer Comparability:** Aligning reporting structures with industry standards facilitates benchmarking against competitors. This comparability can strengthen investor confidence and clarify relative performance.

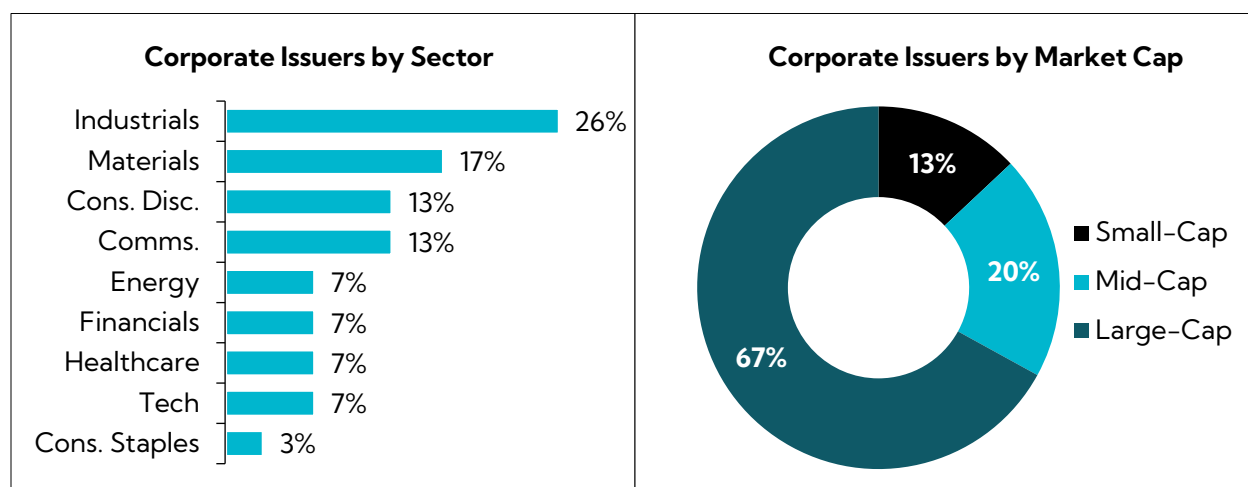
Whether your company is already in the process of resegmenting or early in the assessing and planning phase, it's important to understand the size of the lift you're about to take on. From solidifying the strategic rationale for resegmentation, to recasting prior period financials, to plotting your communication strategy, it will take adoption from key stakeholders across the organization to successfully bring to fruition, and then require buy-in from the investment community once implemented and communicated.

In our quest to effectively guide our clients to market outperformance, we analyzed the communication strategies of public companies that have announced resegmentations in recent years to uncover insights around common practices and layered on our expertise on best practices.

Methodology

Corporate Issuers

To evaluate communication strategies, we conducted bespoke research on a universe of **30 companies** that have announced resegmentations since the start of 2021 across a diverse range of sectors with market caps from \$1.5B to \$3.1T and a median employee count of 23,000 (ranging from 1,055 to 300,000). This includes an analysis of related investor materials and communication channels.



Investment Community

To evaluate investment community preferences and perspectives, we analyzed the conference call transcripts and recordings for each company, including the subsequent two

earnings calls (post-resegmentation announcement), as well as any dedicated resegmentation calls or Investor Days that occurred in the interim. In addition, we analyzed Voice of Investor® feedback and sell side research reports following resegmentation announcements to glean insights into factors garnering investor and analyst support and common areas of concern.

The Resegmentation Communication Journey

1) Laying the Groundwork

As discussed, the resegmentation process is highly complex and requires thorough planning and coordination. Based on our experience, the following key elements are typically considered as part of the pre-resegmentation announcement process:

- **Conducting a Thorough Internal Review:** Involves assessing and clarifying the strategic rationale for resegmentation, as well as evaluating segment performance and ensuring alignment with long-term business priorities.
- **Engaging Key Stakeholders Early:** Involves bringing along the board, executive leadership, and business unit heads to ensure buy-in, and then partnering with accounting firms, general counsel, and other experts.
- **Preparing to Recast Financials:** Involves recasting historical financials to reflect the new segments for a period of eight quarters, including developing a clear roadmap for transitioning to the new structure. Critically important is advance assessment of data integrity, systems, and talent.
- **Managing Scenario Analysis & Pre-call Preparation:** Involves preparing for potential investor questions by modeling "what if" scenarios around revenue growth, margin impacts, and synergies. This may also apply to any changes to disclosures or key metrics.

In addition, when examining corporate issuer materials leading up to the formal announcement, our analysis reveals 23% of companies signaled their intent to resegment ahead of the official announcement. On average, "early signals" came ~4 months in advance of the official resegmentation announcement (with a range of 2 to 6 months), and were communicated through a variety of channels, including Forms 10-Q and 10-K, business updates and earnings calls, and press releases. Best practice is to leverage an earnings press release and call to provide more context and answer any initial questions while also being perceived as transparent (investors generally don't appreciate burying important messages in SEC filings).

Selected Examples of Early Signal Communication:

- **CVS Health (CVS, \$71.7B), ~6 Months Before Formal Resegmentation Announcement, Business Update Call:** *"We're excited about accelerating our investments in our fast-*

growing businesses. And, *going forward, we'll have a financial profile that has improved visibility and a greater mix of recurring revenue, stronger margins and improved free cash flows. We are currently in the process of realigning our operations* as we wind down our BPCI-A and Episodes of Care businesses. This process will involve reallocating resources to our fast-growing HCS and Caravan businesses as well as reducing our Episodes-focused workforce."

- **RTX Corporation (RTX, \$157.6B), ~5 Months Before Formal Resegmentation Announcement, Earnings Press Release:** *"In 2023 we will further align our market-leading franchises with customer needs to drive operational agility and excellence. By more fully leveraging our scale, we will deliver enhanced customer solutions and unlock cost savings opportunities with improved resource allocation and a streamlined footprint. The three focused business segments will be Collins Aerospace, Pratt & Whitney, and Raytheon. The company plans to implement the reorganization during the second half of 2023 and will provide additional updates on its progress over the coming months."*
- **Trimble (TRMB, \$18.4B), ~2 Months Before Formal Resegmentation Announcement, Earnings Call:** *"Beginning with the first quarter, we will naturally resegment our reporting results to reflect the way we view our business. And when we do this, we will simultaneously be able to deliver an increased level of clarity on our business models that many of you have been seeking."*

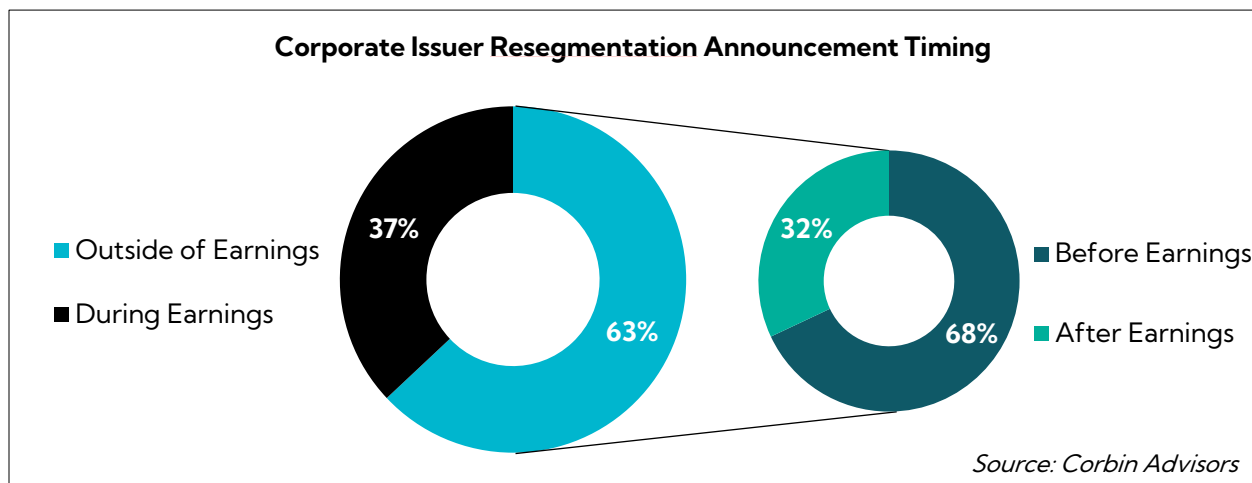
2) Rolling Out the Red Carpet

Introducing resegmentation to the investment community is a nuanced blend of timing and strategy. Below, we distill common practices observed from our analysis of how corporate issuers manage resegmentation announcements.

Announcement Timing and Communication Channels

Overall, most formal resegmentation announcements occur before earnings through a standalone press release:

- **Timing:** 63% of companies announce resegmentation outside of earnings (within 45 calendar days before or after their earnings date); the remainder announce as part of earnings
 - Of the 63%, 68% announce before the next earnings date (~2.5 weeks on average, with a range of 5 days to 5 weeks), which is best practice, as it allows the Street to digest information in advance *and* provides the company with an opportunity to fulsomely communicate the change, address identified concerns, and answer questions
 - The remaining 32% announce after their most recent earnings date (~3 weeks on average, with a range of 1 day to 6 weeks)

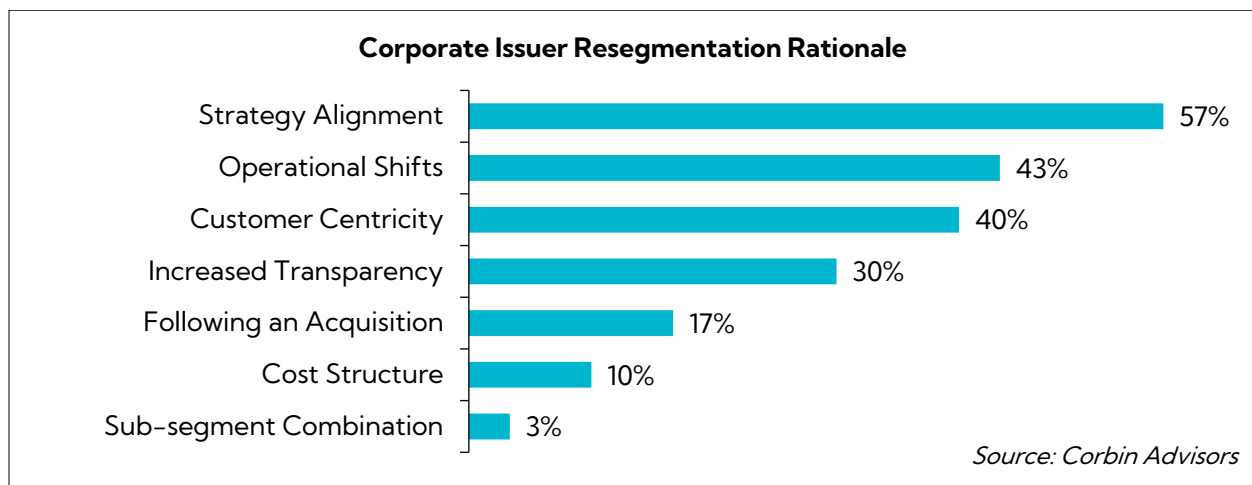


- **Effective Date:** 73% indicate the resegmentation is *immediately or already in effect*; the remaining 27% set the effective date an average of ~2 months following the announcement (with a range of 1 week to 4 months)
- **Communication Channels:** In terms of communication channels utilized, 77% announce resegmentation via a press release; of these, 56% issue standalone press releases, while 44% are included within other announcements, such as earnings releases (we recommend the former as best practice given the higher level of transparency and opportunity to reinforce in the earnings announcement)
 - 92% of standalone press releases include a description of the new segments along with a CEO quote and rationale for the resegmentation decision
 - Other less common communication announcement channels include earnings calls, Investor Day presentations, and 8-K filings (i.e., announcements made exclusively through these channels, rather than in conjunction with a press release)

Announcement Rationale

When announcing a resegmentation, it's important to clearly communicate the strategic rationale of the new segment reporting structure, such as how it aligns with the go-to-market strategy, streamlines operations, and/or creates synergies:

- **Rationale:** 57% indicate *Strategy Alignment* as one of the key drivers
 - Other common benefits cited include *Operational Shift*, *Customer Centricity*, and *Increased Transparency*
 - See our [M&A Thought Leadership](#) for resegmenting following an acquisition



Announcement Characteristics

Based on our research, these changes are predominantly initiated by more tenured executives who move to streamline the business into fewer segments (which is often an issue with the Street at first — as it reduces transparency — making communication of the rationale even more important); notably, most do not adjust annual segment-level guidance until a new fiscal year begins, and half opt to recast more than the required two years of financials, on average, at the time of the announcement:

- **Leadership Tenure:** Given the complexity of the process, as well as the operational expertise and deep understanding of an organization's structure required, it is rare for a new CEO to embark on a resegmentation; in our leadership transition [research](#), new executives initially focus on vision, portfolio management, and capital allocation, before embarking on resegmentation
 - The average tenure of CEOs at the time of announcement is just over 5 years, with a median of 3.8 years; only 23% of executives had a tenure of less than one year at the time of the announcement
- **Segment Number:** Nearly half, 47%, *reduce*, 30% *maintain*, and 23% *increase* the number of segments
- **Segment Categories:** A majority, 63%, list their business segments by *Product Type*, while the rest are listed by either *End Market* (13%), *Geography* (6%), or various combinations thereof
- **Reporting Metrics:** All companies include segment-level reporting in their quarterly financial results, with an average of two metrics per segment; the most common segment metrics are Revenue and Margins
- **Guidance:** Notably, companies avoid amending annual segment-level guides at the time of the resegmentation announcement

- Within our study group, only five companies provided segment-level guidance prior to their resegmentation announcement; of those, four of the resegmentations were timed to occur directly before fiscal year end (and were therefore not discretely adjusted), and the remaining company opted to maintain their previous segment-level guidance past the effective resegmentation date
- **Financial Recast Timing:** 50% of companies provide recast financials on the same day as the announcement; the remainder provide recast financials a median of 5.5 weeks following the announcement (we do not advise waiting to provide recast financials)

3) Following Through

Companies should be prepared for their resegmentation to be an acute topic of interest during subsequent conversations with investors following the announcement. In addition to the post-announcement earnings call, proactive companies employ a variety of other communication channels to share additional information in the days after their initial announcement.

Supplemental and Post-Announcement Communications

Special calls and dedicated presentations are commonly used in addition to Investor Day as part of the comprehensive resegmentation toolkit:

- **Dedicated Webcast:** 20% held a webcast following the resegmentation announcement
- **Dedicated Presentation:** 20% published a dedicated presentation

Of note, two companies within our analysis held a dedicated webcast with presentation materials.

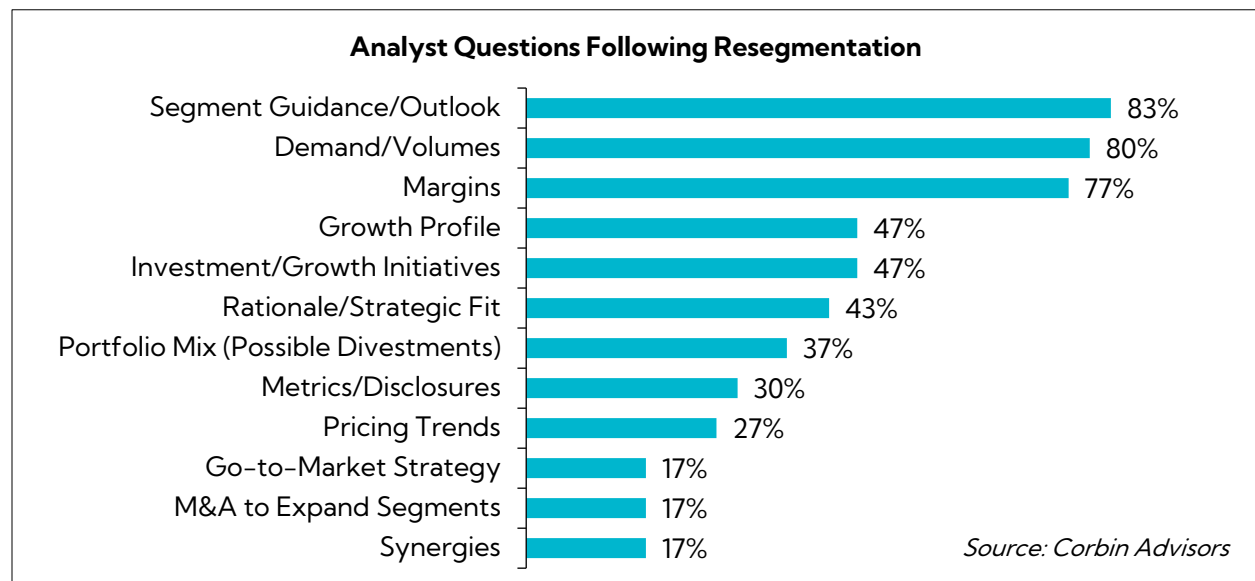
- **Investor Day:** 47% host an Investor Day within the year following resegmenting, with events occurring ~five months after the initial announcement, on average
 - Only one company announced the resegmentation as part of its Investor Day

Analyst Questions and Perspectives

Earnings and Other Related Call Analysis

To provide insights into the types of questions companies can expect following a resegmentation announcement, we analyzed two quarters of post-announcement earnings, as well as any special investor calls/meetings that occurred in the interim.

As one might expect, our findings show the most frequent questions specific to resegmentation revolve around segment-level outlooks, particularly as it pertains to demand, margins, and growth profiles. At the same time, it is worth highlighting that just under half, 43%, still receive questions specifically focused on the rationale for resegmentation and/or expressing a desire for greater clarification.



Selected Examples of Analyst Questions Specific to Resegmentation Rationale

- “We’ve had a lot of positive inbound since you have given this new segmentation. But when you are sitting around the table, **did anything change in terms of how you think about the business** and plan about thinking about the business going forward that aligns with the segmentation, **or is it business as usual, and this segmentation is more for us investors to better understand what’s already been going on** behind the scenes?”
- “Recently, you restructured how you present yourself to the Street, putting those two [segments] together. **I want to get a little bit more color from you on why you put those two together** and **how you think the growth trajectory will look having done that going forward** versus potentially having had them separated before?”
- “Now that you’ve completed this reorganization, **you’ve indicated there’s some real streamlining** that is associated with this new structure. **I was hoping that you could give**

a little bit more color on what you're seeing now that these changes have been implemented in terms of how these segments are operating. And is there any way to quantify some of the benefits either in margin terms or growth terms or dollar terms?"

Sell Side Report Analysis

In addition to conference calls, we analyzed subsequent sell side analyst reports for these companies following their resegmentation announcements. Additionally, we have supplemented the observations with verbatim Voice of Investor® feedback related to resegmentations.

While analyst reactions are mixed, influenced by idiosyncratic factors specific to each company, analysts generally respond positively when resegmentation enhances transparency, aligns strategically with the company's vision, and presents clear opportunities for value creation. However, concerns are raised about potential visibility issues, execution risk, and the actual transformative impact of the changes.

Overall, resegmentations tend to be well-received if they are supported by a coherent, strategic explanation, demonstrable KPIs, and tangible operational achievements.

Factors Leading to Positive Analyst Views on Resegmentation

- **Improved Transparency:** Analysts often point to enhanced clarity in reporting, which makes it easier for investors to evaluate the performance of key business lines.
- **Alignment with Strategic Goals:** Analysts emphasize the alignment with clear strategic priorities, such as focusing on high-growth or high-margin businesses. Examples include focusing on asset-light models or aligning with megatrends like AI, automation, and sustainability.
- **Catalyst for Re-Rating:** Reports frequently identify resegmentation as a potential catalyst for re-rating the stock, especially when it highlights growth in attractive segments or diminishes focus on underperforming units.
- **Support for Simplification and Focus:** Streamlining operations or financial disclosures into fewer, more strategic categories (e.g., combining overlapping businesses or spinning off low-growth units) often receives positive commentary as it signals operational discipline.

Voice of Investor® Commentary

"I agree with the resegmentation. It makes it a lot easier to analyze the businesses, compare the two pieces of the Company to other competitors and put a proper sum-of-the-parts valuation on it, which you could not do before. Now you can and it is easy to do that."

"It is a better representation of how they are looking at the other businesses. One thing that they have talked about overall is the multiple that the stock trades at. There are not a lot of domestic peers or pure-play peers but on one part of the business, some of the other international companies out there generally trade at a higher multiple given the recurring nature of that business. They want to get more credit for their businesses and what is going on."

"It was a well thought out change and strategy. It seems like the right divisions are in the right segments, and hopefully it will allow them to focus a little more on capital allocation and decision-making in terms of which divisions get better funding and with good division heads."

"The new structure makes sense, putting the new acquisition with the rest of the businesses and getting more clarification on [Segment A]. It is a pain to go back and restate everything and adjust our models, but it is a better way of reporting and from their standpoint, is a better way to operate."

Common Concerns and Critiques

- **Reduced Granularity:** Consolidation of segments is sometimes viewed as reducing visibility into the performance of specific business units, making it challenging to track growth drivers or issues within a business, especially when done too frequently. For instance, there is criticism that weaker-performing segments might be bundled with stronger ones, potentially obscuring challenges.
- **Execution Risks:** Analysts highlight the risks associated with managing large-scale reorganizations, including integration challenges, execution missteps, or potential disruptions to operations during the transition.
- **Unclear Communication:** When there is a lack of detail about the rationale, expected benefits, or KPIs of the new segmentation, it leads to uncertainty and diminishes confidence in the transformational benefits of the new reporting structure. According to our research, transparency is highly correlated with management credibility, and resegmentation without proper communication can erode trust and confidence.

Voice of Investor® Commentary

"I am going back through my model and retooling it for the changes they have made. They have made so many changes over the last decade, getting bigger and smaller, resegmenting and growing through acquisitions. It is difficult to take what has happened in the past and apply it on a go-forward basis. We do not have clear-cut historicals for their [Segment A] business, which has been around forever. The way they mash things together at times, I am losing clarity as they try to increase it. They provided restatements in their filings for those segments, but it will help if they go back further in time and show quarter-by-quarter

growth for these businesses, so investors can benchmark them and use that for a forward-looking perspective as well."

"In terms of the segment structure, I want more history. I am a big student of history, so when companies re-segment and realign things, it bothers me because I cannot figure out how this has been doing and what it is likely to do going forward."

"I like the new org structure and disclosures and am optimistic. As we get into normalization and under the new structure, it is appropriate for them to offer to the Street a, whatever they want to pick, 3-, 4-, 5-year set of targets because there has been tremendous turmoil under the surface, certainly in some markets and they emerge from that a somewhat different company than they entered it."

The Big So What™

Resegmentation is more than just a procedural adjustment; it can represent a strategic and/or operational step change that realigns a company's reporting to better match its evolving business approaches and strategic focus. The manner in which this change is communicated plays a crucial role in shaping market receptivity.

Key Recommendations

- **Communicate a resegmentation in advance of main events:** Plan resegmentation announcements ahead of earnings or an Investor Day to provide the investment community ample time to absorb the information and update models, and not distract from other major corporate events.
- **Communicate the intent, process, and benefits of resegmentation, and use all the channels at your disposal:** Clearly articulate the reasons, timeline, and any expected efficiencies as a result of resegmentation. Utilize a variety of communication channels — an initial dedicated press release (not just an 8K) and presentation and reiterate in the earnings press release and address in prepared remarks and presentation — to ensure comprehensive understanding. Leverage resegmentation as a highlight and/or catalyst for Investor Day, particularly when tied to significant events like mergers, acquisitions, and divestitures.
- **Set It and Forget It:** In general, resegmentations should not be a common practice. While rare, there is precedence where companies resegment multiple times, which serves to confuse or overwhelm investors, as well as create skeptics. As such, this practice should be avoided as it erodes credibility.
- **Provide detailed disclosures that go beyond the minimum requirements:** Include recasts of financials that extend three years. Employ visual tools like charts and flow

diagrams to show the changes before and after resegmentation. Further, provide downloadable Excel files to enable investors to seamlessly integrate historical data into models.

- **Nix the acronyms and avoid hanging your hat on the macro:** Avoid using generic names or acronyms for new segments and steer away from naming segments based on geography (e.g., China, Europe, North America) or end markets (e.g., semiconductor, industrial, healthcare), which can be an unnecessary victim of headline risk and draw greater scrutiny by investors and analysts. Instead, leverage the opportunity to educate the investment community about the unique aspects of your business through thoughtful segment naming (e.g., advanced materials)
- **Build credibility with a dedicated webcast:** One surefire way to address questions and concerns, and in the process build credibility, is to host a dedicated webcast with the resegmentation announcement. On the live call, leadership can delve into the details of the resegmentation process, discuss the strategic implications, clarify uncertainties, and project excitement through their tone. Additionally, this platform offers the opportunity to reinforce the long-term strategy and how this move serves to advance the vision and positioning of the company.

In Closing

The success of resegmentation hinges on thorough preparation, clear communication, and robust stakeholder engagement. Thank you for your trust in us to guide you through these transformative processes.

Let Corbin help you cut through the noise and develop a differentiated investment thesis that serves to educate and capture investor mindshare.



Contact us today:

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