

Fortive: Has the Spin-Off Made the Portfolio More Focused?

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Student case draft for independent review

Fortive Corporation develops and sells industrial instrumentation, software and services, as well as healthcare workflow products. On June 28, 2025, it separated its Precision Technologies businesses into Ralliant Corporation and distributed Ralliant shares to Fortive shareholders. Fortive said the separation would create two companies with focused business models and distinct growth and capital-allocation priorities. The remaining Fortive consists of Intelligent Operating Solutions (IOS) and Advanced Healthcare Solutions (AHS).

By July 2026, Fortive had reported roughly one year of post-separation operations. In its second-quarter filing, the company reported 6.7% core revenue growth and a 240-basis-point increase in consolidated operating margin compared with the prior-year quarter. Yet the two segments did not move in lockstep, and the company attributed a substantial part of the margin increase to amortization, lower restructuring expenses and tariff refunds. These figures leave an outside investor with a question: how much should the first year change confidence in management's original focus thesis?

Your assignment

You are an outside analyst preparing a short strategy assessment for a hypothetical public-equity investment committee. It is not asking for a valuation or buy/sell recommendation. It wants to know whether evidence available on July 29, 2026 should **increase, leave unchanged or reduce confidence in management's original thesis that the separation would enable Fortive's retained businesses to operate as a more focused profitable-growth platform.**

Choose one of the three positions and defend it. Separate reported facts from management explanations and your own inferences. Compare IOS and AHS, assess the company's margin bridge, and state what the academic evidence does and does not add. Identify two or three future observations that could change your assessment. Do not assume that post-separation performance was caused by the separation.

What Fortive separated-and why

Fortive announced the planned separation in September 2024. Management described a portfolio evolution: the continuing Fortive would emphasize its IOS and AHS businesses, which it characterized as a resilient, high-quality recurring-growth portfolio; the new company would contain precision technologies businesses positioned around test and measurement, sensors, safety systems and other secular growth trends. Management argued that independent companies could pursue distinct strategies and capital allocation priorities. These were the company's expectations at announcement, not verified outcomes.

The separation closed on June 28, 2025. Fortive shareholders received one Ralliant share for every three Fortive shares they held on the record date. Ralliant became a separate public company. Fortive's 2026 second-quarter report presents the former Precision Technologies businesses as discontinued operations for all periods shown; unless noted otherwise, its reported results refer to continuing operations.

Fortive's retained business is not a single product line. IOS sells instrumentation, software and services supporting customers' operating workflows. AHS supplies workflow solutions for healthcare providers. The company describes its Fortive Business System (FBS) as a shared operating model using continuous-improvement tools and practices. Its 2025 annual report describes the broader "Fortive Accelerated" strategy as profitable organic growth powered by FBS, disciplined capital allocation and investor trust. Those statements describe the company's approach; they do not quantify the effect of the spin or prove that the two segments now share one source of advantage.

Exhibit 1. Growth through the second quarter of 2026

Growth measure, year over year	Q2 2026	First half 2026
Reported GAAP revenue growth	7.9%	7.8%
Core revenue growth	6.7%	6.1%
Price contribution to core growth	2.4%	2.3%
Volume contribution to core growth	4.3%	3.8%
Acquisition/divestiture effect excluded from core	+0.3 pp	+0.1 pp
Foreign-currency effect excluded from core	+0.9 pp	+1.6 pp

Fortive defines core revenue as GAAP sales excluding the impact of acquired and divested businesses and foreign-currency translation. Core growth includes price and unit sales. In the filing's "excluding impact" reconciliation, the parenthesized adjustments remove the positive acquisition/divestiture and currency contributions from reported growth to derive core growth. Components are rounded: 6.7% plus 0.3 and 0.9 percentage points equals 7.9% at displayed precision. Core revenue is a non-GAAP measure and may not be comparable with similarly named measures at other companies.

The company said Q2 and first-half growth came from pricing and higher volume. It also said foreign-currency translation was favorable to reported growth. North America was the main source of core growth, with growth in Latin America and Asia-Pacific slightly offset by decline in

Europe, the Middle East and Africa. Those are company-reported explanations, not an independent estimate of the causes of growth.

Exhibit 2. Fortive's two retained segments

Q2 year-over-year measure	IOS	AHS
2026 sales	\$758.2m	\$338.6m
Reported GAAP revenue growth	8.8%	6.0%
Core revenue growth	7.4%	5.3%
Price contribution to core growth	2.7%	1.9%
Volume contribution to core growth	4.8%	3.4%
Foreign-currency contribution to reported growth	+1.0 pp	+0.6 pp
Acquisition/divestiture contribution to reported growth	+0.4 pp	+0.1 pp
Operating margin, Q2 2025 → Q2 2026	24.5% → 26.8%	11.2% → 11.3%

Fortive said IOS volume growth was driven primarily by professional instrumentation, facilities and asset-lifecycle software, and gas detection. AHS volume growth was driven primarily by increased demand for sterilization products. The source filing gives rounded growth components; figures may not add exactly due to rounding.

The margin comparison is less uniform. Fortive attributed IOS's 230-basis-point Q2 operating-margin increase to 70 basis points from pricing, volume and FBS productivity, net of mix and employee costs, and 160 basis points from other items. For AHS, the company attributed a 75-basis-point decline to operating drivers-pricing and volume more than offset by mix, employee costs and growth investments-while other items contributed +85 basis points. Segment margin is operating profit divided by segment sales as reported in the filing.

Exhibit 3. Consolidated operating-margin bridge

Q2 operating-margin change from Q2 2025	Fortive's attribution
Reported operating-margin increase	+240 bps
Pricing, volume, FBS productivity and organizational streamlining, net of employee costs, mix and growth investment	+80 bps
Lower amortization expense for existing businesses	+70 bps
Lower discrete restructuring expense	+55 bps
Tariff refunds	+40 bps
Acquisition/divestiture-related effects	–5 bps
Total of rounded disclosed components	+240 bps

For the first half, operating margin increased 180 basis points. Fortive attributed 100 basis points to operating drivers, including pricing, volume, FBS productivity and organizational streamlining, net of offsets; the remaining 80 basis points reflected other items, including amortization, tariff refunds, reduced restructuring and acquisition/divestiture effects. These are management's explanations of year-over-year changes, not an independent causal decomposition. The company records approved tariff refunds in cost of sales and says the timing and amount of future recoveries remain uncertain. The company also says a separation-related restructuring plan begun in late 2024 was expected to continue through the end of 2026.

The former sibling and the comparison problem

Ralliant's businesses became independent on June 28, 2025. Its filings describe a portfolio centered on test and measurement and sensors and safety systems. Its first-quarter 2026 report and May 2026 results release were the latest available by Fortive's July 29 cutoff. They show that the new company also reports its own businesses and strategy, but they do not provide a matched control group for Fortive: the portfolios differ, each company has its own accounting and non-GAAP definitions, and Ralliant's historical carve-out results reflect allocated costs. Ralliant's second-quarter 2026 results were released July 30, one day after this case's cutoff, and are not used here.

What research says about spin-offs

Daley, Mehrotra and Sivakumar studied 85 corporate spin-offs announced between 1975 and 1991. They classified 60 as "cross-industry" when the continuing and spun businesses had different two-digit SIC codes, and 25 as "own-industry." The average two-day announcement excess return was 4.3% for the cross-industry group (statistically significant at 1%) and 1.4% for the own-industry group (not statistically significant). In their operating-performance analysis, the median year-0-to-year-1 change in parent operating income divided by year-end assets was +2.3 percentage points after industry adjustment for cross-industry spin-offs ($p < .01$); the own-industry result was not significant. The reported performance improvement was associated with the continuing parent.

The study provides one historical argument for a focus mechanism: removing unrelated operations may help continuing businesses. Its sample is small and old, the SIC classification is

broad, and the analysis is observational. Fortive's and Ralliant's SEC industry classifications are both 3823, although that code does not settle whether their businesses are strategically related. The study does not estimate Fortive's spin-off effect or predict its future margins.

Lee and Madhavan's 2010 meta-analysis reports an overall positive relationship between divestiture and subsequent performance across 650 effect sizes from 94 studies, with results varying by performance measure, transaction format, strategic intent and firm resources. The publisher abstract is accessible, but the full article's methods and detailed results are not available in this case research. Treat it as broad context that effects vary, not as a forecast or proof that any spin-off creates value.

Discussion questions

1. Should the first-year evidence increase, leave unchanged or reduce confidence in Fortive's focus thesis? Which two facts matter most to your view?
2. How do reported growth, core growth and price/volume growth tell different parts of the story? What remains attributable to currency and acquisitions/divestitures?
3. What does the Q2 margin bridge establish, and what does it leave unresolved about the durability of performance?
4. Do IOS and AHS support one coherent retained-portfolio narrative, or do their different growth and margin patterns call for separate explanations?
5. What can the spin-off research add to an assessment of Fortive? What are the study's transfer limits?
6. Name two or three future observations that would change your confidence. Explain what result in either direction would matter.

Sources

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