

John Stancavage: Will Hertz accelerate after earnings problems?

By JOHN STANCAVAGE World Business Columnist | Posted: Sunday, July 19, 2015 12:00 am

Stock investors seemed pleased that Hertz Global Holdings finally issued its long-delayed restatement of earnings last week, but at least one analyst failed to share their excitement.

Late Thursday, Hertz filed its annual report for fiscal 2014, which includes restated results for 2012, 2013 and some restated financial information for 2011. The company also reported earnings for the first quarter of fiscal 2015.

Esterio, Florida-based Hertz said it misstated pre-tax income over the three years by \$207 million. That sounds like a lot of money, even for the accounting operations of a huge company, but Hertz cushioned the blow by also announcing some steps to build profits.

Among the company's new actions and strategies are increasing cost savings from \$200 million to \$300 million and carrying out a \$1 billion repurchase program.

On the news Friday, shares of Hertz jumped \$2.02 to \$19.02, signaling that many investors were pleased with the steps taken by the company.

Tulsa money manager Fred Russell was not a member of this cheering section, however.

“It appears that a lot of people thought Hertz’s mistakes turned out to not be as bad as they had feared,” Russell told me. “However, I was surprised by the lack of detail provided about the problems, as well as a full explanation of the steps that were taken initially.”

These were errors, after all, that likely played a large part in CEO Mark Frissora's resignation in September 2014. He was replaced in November by United Air Lines executive John Tague.

Frissora had bought Tulsa-based Dollar Thrifty Automotive Group in 2012. Since then, he had been sending much of DTAG's staff to Florida, put the firm's Tulsa campus up for sale and pursued millions of dollars in "synergies."

In the new Hertz restatements, Tague at one point refers to one of his goals as being to "revitalize Dollar and Thrifty into leading-value brands."

When I saw that, I wondered why Hertz would need to "revitalize" Dollar and Thrifty when former DTAG CEO Scott Thompson had already done that prior to the buyout. Indeed, Thompson had taken a company that had slumped to under \$1 a share and brought it back to be the envy of the industry with an \$80-plus stock price.

This puzzles Russell as well. "I'm not sure Tague should be suggesting that comparison," said the Tulsa analyst.

"Tague and his staff — many of whom are new — may find the challenge before them is much bigger than they realize. I wouldn't want to own the stock as they go through this learning curve."



Fred Russell (copy)

SKEPTIC Fred Russell: "I was surprised about the lack of detail provided about the problems as well as ... the steps initially taken."