



The Hertz Corporation Harvard Case Solution & Analysis



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Q1 What are the Pros & Cons of the 3 exit mechanisms:
1. sales
2. IPO
3. dual-track?

Year 2005



company
worldwide
e than 140 countries
es



IPO (+ve)
1. Less flexibility
2. More time pressure & difficult to control
3. More time pressure & difficult to control
4. More time pressure & difficult to control

Dual Track (+ve)

1. Less dependency on market conditions
flexibility
- IPO process is largely dependent on market conditions
- If market condition is not favorable
2. Create leverage for sales process
- Dual-track process creates degree of flexibility
- IPO price: benchmark value of the company
- Any bid price should be greater than IPO price

Dual Track (+ve)

3. Option for a Complete Sale
May not be able to sell the company
avoid complications, delays

Dual Track (-ve)

1. Management Distraction and Risk to Business
- Sales + IPO costly + time demanding
- Multitasking could detriment business
- Sale Process & IPO
2. Competing Priorities can lead to Sub-Optimal Result
- Different timing considerations for both processes prematurely forced to make a decision
- Delay may cause unfavorable market conditions, decline in offering price

***Q1 What are the Pros & Cons of the
3 exit mechanisms:***

1. sales

2. IPO

3. dual-track?

SALES: (+ve)



1. Up Front Cash Proceeds & Certainty of Execution

- Declining Performance of Ford
- Hertz' excellent financial performance: Fetch High Price
- Hertz' total revenues jumped by 31.41% from 2002 to 2005 at a high of US 7.41 Billion

2. Free from Responsibilities of Ownership

- Relieved from responsibilities at Hertz
- Focus on other business segments Eg. Car Operations

SALES: (-ve)

1. Loss of Source of Revenue/ Cash Flow

- Hertz net income of US\$324.9 million for the year 2005
- May dampen Ford's financial performance overall

2. Complex and Costly

- Requires a substantial amount of time and resources

IPO: (+ve)



1. Access to Capital Markets & Lower Cost of Financing

- Easier way to raise funds by issuing equity
- Reduced Debt-to-Equity Ratio
- More favorable borrowing conditions

2. Increase in Equity Liquidity to be Utilized

- Shares are more liquid
- Can be used as a form of payment
- Shares as an incentive

IPO: (+ve)

3. Prestige: Sign of Stability and Dependability

4. Increased Transparency and Monitoring

- Investor Confidence
- Hertz' Value and Stock Price

5. Keep Company and its source of Cash Flows

Continue to run company and benefit financially from their operations.

IPO: (-ve)

1. High expense and time-consuming

Eg. underwriter's commission and expenses; legal and accounting fees; printing cost and registration fees (roughly 10%)

2. Diluted control and profit

- Ford's control over the company decreased
- Profit to be shared with new shareholders

3. Loss of confidentiality and burden of compliance

- Face higher regulation by SEC
- Costly and cumbersome