



Related Party Transactions Raise Red Flags In Today's Filing Season Find

For March 5, our forensic accounting needle in a haystack comes from a car rental service that purchases goods and services from a company controlled by its largest investor.

Get the best fundamental research

Analyst Jacob McDonough found an unusual item in Hertz Global Holdings' (HTZ) 2018 10-K.

On [page 140](#), HTZ discloses that it purchases goods and services from entities controlled by Carl Icahn, who is the largest investor in HTZ and controls multiple board seats. HTZ purchased \$39 million worth of goods and services from these entities – primarily The Pep Boys – in 2018, which was up from \$13 million in 2017.

While \$39 million in expenses is relatively minor for HTZ (less than 1% of revenue), the company discloses on [page 32](#) under its risk factors:

"It is possible that these entities could cancel, choose not to renew or renegotiate the terms of their arrangements with the Company following the sale of shares by affiliates of Carl Icahn, which could adversely impact our business."

That risk became all the more relevant on March 5 after Icahn disclosed that he'd [cut his stake in HTZ by almost 20%](#). Investors should be aware that this development could lead to a disruption of service or increased costs for the company. In addition, Icahn's sale suggests that he has no interest in taking the company private, which has been one of the primary bull cases for the stock over the past year. HTZ dropped 10% on the news.

We [warned investors to avoid HTZ a year ago](#), and the stock is down 12% while the S&P 500 is flat since then. Icahn trimming his stake in HTZ just as the company becomes more reliant on his other businesses only increases the risk in owning this stock.

The Power of the Robo-Analyst

We analyzed 201 10-K filings yesterday (breaking the record we set on [February 28](#)), from which our [Robo-Analyst](#)¹ technology collected 22,154 data points. Our analyst team used this data to make 4,384 forensic accounting [adjustments](#) with a dollar value of \$844 billion. The adjustments were applied as follows:

- 1,742 income statement adjustments with a total value of \$51 billion
- 1,890 balance sheet adjustments with a total value of \$376 billion
- 725 valuation adjustments with a total value of \$417 billion

We believe this research is necessary to fulfill the [Fiduciary Duty of Care](#). Ernst & Young's white paper, "[Getting ROIC Right](#)", demonstrates how these adjustments contribute to meaningfully superior models and metrics.

This article originally published on [March 5, 2019](#).

Disclosure: David Trainer, Jacob McDonough, and Sam McBride receive no compensation to write about any specific stock, sector, style, or theme.

Follow us on [Twitter](#) ([#filingseasonfinds](#)), [Facebook](#), [LinkedIn](#), and [StockTwits](#) for real-time alerts on all our research.

¹ Harvard Business School features the powerful impact of our research automation technology in the case [New Constructs: Disrupting Fundamental Analysis with Robo-Analysts](#).



New Constructs® - Research to Fulfill the Fiduciary Duty of Care

Ratings & screeners on 3000 stocks, 450 ETFs and 7000 mutual funds help you make prudent investment decisions.

New Constructs leverages the latest in machine learning to analyze structured and unstructured financial data with unrivaled speed and accuracy. The firm's forensic accounting experts work alongside engineers to develop proprietary NLP libraries and financial models. Our investment ratings are based on the best fundamental data in the business for stocks, ETFs and mutual funds. Clients include many of the top hedge funds, mutual funds and wealth management firms. David Trainer, the firm's CEO, is regularly featured in the media as a thought leader on the fiduciary duty of care, earnings quality, valuation and investment strategy.

To fulfill the Duty of Care, research should be:

1. **Comprehensive** - All relevant publicly-available (e.g. 10-Ks and 10-Qs) information has been diligently reviewed, including footnotes and the management discussion & analysis (MD&A).
2. **Un-conflicted** - Clients deserve unbiased research.
3. **Transparent** - Advisors should be able to show how the analysis was performed and the data behind it.
4. **Relevant** - Empirical evidence must provide [tangible, quantifiable correlation](#) to stock, ETF or mutual fund performance.

Value Investing 2.0: Diligence Matters: Technology is Key to Value Investing With Scale

Accounting data is only the beginning of fundamental research. It must be translated into economic earnings to truly understand profitability and valuation. This translation requires deep analysis of footnotes and the MD&A, a process that our [robo-analyst technology](#) empowers us to perform for thousands of stocks, ETFs and mutual funds.



DISCLOSURES

New Constructs®, LLC (together with any subsidiaries and/or affiliates, "New Constructs") is an independent organization with no management ties to the companies it covers. None of the members of New Constructs' management team or the management team of any New Constructs' affiliate holds a seat on the Board of Directors of any of the companies New Constructs covers. New Constructs does not perform any investment or merchant banking functions and does not operate a trading desk.

New Constructs' Stock Ownership Policy prevents any of its employees or managers from engaging in Insider Trading and restricts any trading whereby an employee may exploit inside information regarding our stock research. In addition, employees and managers of the company are bound by a code of ethics that restricts them from purchasing or selling a security that they know or should have known was under consideration for inclusion in a New Constructs report nor may they purchase or sell a security for the first 15 days after New Constructs issues a report on that security.

DISCLAIMERS

The information and opinions presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or solicitation of an offer to buy or sell securities or other financial instruments. New Constructs has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor and nothing in this report constitutes investment, legal, accounting or tax advice. This report includes general information that does not take into account your individual circumstance, financial situation or needs, nor does it represent a personal recommendation to you. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about any such investments or investment services.

Information and opinions presented in this report have been obtained or derived from sources believed by New Constructs to be reliable, but New Constructs makes no representation as to their accuracy, authority, usefulness, reliability, timeliness or completeness. New Constructs accepts no liability for loss arising from the use of the information presented in this report, and New Constructs makes no warranty as to results that may be obtained from the information presented in this report. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information and opinions contained in this report reflect a judgment at its original date of publication by New Constructs and are subject to change without notice. New Constructs may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and New Constructs is under no obligation to insure that such other reports are brought to the attention of any recipient of this report.

New Constructs' reports are intended for distribution to its professional and institutional investor customers. Recipients who are not professionals or institutional investor customers of New Constructs should seek the advice of their independent financial advisor prior to making any investment decision or for any necessary explanation of its contents.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would be subject New Constructs to any registration or licensing requirement within such jurisdiction.

This report may provide the addresses of websites. Except to the extent to which the report refers to New Constructs own website material, New Constructs has not reviewed the linked site and takes no responsibility for the content therein. Such address or hyperlink (including addresses or hyperlinks to New Constructs own website material) is provided solely for your convenience and the information and content of the linked site do not in any way form part of this report. Accessing such websites or following such hyperlink through this report shall be at your own risk.

All material in this report is the property of, and under copyright, of New Constructs. None of the contents, nor any copy of it, may be altered in any way, copied, or distributed or transmitted to any other party without the prior express written consent of New Constructs. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of New Constructs. Copyright New Constructs, LLC 2003 through the present date. All rights reserved.