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UPDATE 2-Hertz IPO the latest coup for buyout firms

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(Changes dateline; Adds details, background)

By Joseph A. Giannone

NEW YORK, Oct 27 (Reuters) - Hertz Global Holdings Inc., the world's largest car rental company, on Friday said it could raise up to $1.83 billion in an initial public offering, nearly doubling earlier sale plans and putting it on track to be the year's second-biggest U.S. IPO.

The flotation by private-equity funds who acquired Hertz from Ford Motor Co. <F.N> 10 months ago also marks another coup for such investors, who increasingly are selling companies for eye-popping gains after only brief periods of ownership and after drawing out millions in fees.

Park Ridge, New Jersey-based Hertz said it will sell a 27.5 percent stake to the public, according to a prospectus filed with the U.S.Securities and Exchange Commission. At the high end of the range, Hertz would be valued at about $5.8 billion.

ML Global Private Equity Fund LP, an affiliate of Merrill Lynch <MER.N>, and buyout firms Carlyle Group and Clayton Dubilier & Rice bought Hertz from Ford last December for $5.6 billion, or $15 billion including debt.

If completed this year, Hertz would rank as the second largest U.S. offering, trailing credit card association MasterCard International's <MA.N> $2.4 billion deal in May.

When it first filed plans to go public in July, Hertz had said it planned to raise $1 billion from the offering. Hertz, which last year had pretax income of $374.6 million on revenue of $6.05 billion, was not available for comment.

BUYOUT WINDFALLS

The Hertz investors are set to reap a paper gain of nearly $4 billion on $2.3 billion they invested less than a year ago. But that's only the latest coup for private equity investors, who are buying ever-larger companies and turning them around quickly for outsized gains.

Other household names to go through similar buyouts include Burger King <BKC.N>, which went public in May and prescription drug maker Warner Chilcott Holdings Company Ltd. <WCRX.O>, which did so last month.

Traditionally, buyout firms use slices of equity and heaps of debt to buy undervalued companies. Sponsors can then install new management, reorganize the business and improve performance over several years before taking them public again.

But recently, LBO shops have accelerated the turnaround period and found ways to pay themselves back before an IPO using financial engineering rather than operational strategies, such as restructuring debt and paying themselves dividends.

"In a lot of cases now, the purpose simply is to make money. It's turning over the business and securing that profit," said Argus Research analyst Kevin Calabrese. "It's almost what day trading used to be. You don't care what the company does, you know little more than the ticker symbol, but you see an opportunity to make money."

MULTIPLE PAYMENTS

At Hertz, in addition to the increased value of their shares, the three firms will receive a special dividend of about $1.83 a share, or $426.8 million in total, from Hertz if the deal prices at the midpoint of the range.

That's the amount of net IPO proceeds Hertz estimates will remain after it pays off a $1 billion loan facility -- a loan obtained in June so that Hertz could pay a $991.4 million dividend to these investors, according to the filing.

If the 13 million overallotment shares are sold, that payout increases by an additional $214.9 million. These values rise even higher at the upper end of the IPO price range.

Hertz also paid $25 million to each LBO firm for "acquisition and finance-related services," $2.25 million in other fees plus expenses to these firms. Hertz will also pay $15 million to terminate certain agreements after the IPO.

Penn State University business professor Tim Pollock said LBO firms add value by improving the companies and deserve some reward for the risks they take. Yet some LBO firms now seem to be exploiting their portfolio companies, he said.

"They tack on debt and they suck out who knows how much in fees, so they've they got their cash back before they even take their investment public," Pollock said.

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