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Finance

Dollar Thrifty profits plunge despite record 2Q revenues

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TULSA – Second-quarter profits for Dollar Thrifty Automotive Group fell 42.69 percent despite record revenues. The Tulsa-based vehicle rental company still managed to beat Wall Street analyst estimates, but its stock took a tumble Tuesday as Dollar Thrifty lowered its earnings guidance for the year.

Higher vehicle financing and fleet costs lay at the heart of the company's problems, said President and Chief Executive Gary L. Paxton. Under its countering strategy of raising rental rates and reducing operational costs, Dollar Thrifty last week trimmed 25 percent of its headquarters administrative staff, its second such step this year.

"I think management is doing the right things," said Fredric E. Russell, owner of Fredric E. Russell Investment Management Co. of Tulsa. "It's cutting back. What else can management do?"

For the second quarter, Dollar Thrifty reported a net income of $15.3 million, or 63 cents per diluted share, down from $26.7 million, or $1.04 diluted, the previous year.

That beat the 57-cent projection drawn from analyst surveys by Zacks Investment Research of Chicago.

Revenue increased 6.9 percent to a record $451.6 million from $422.57 million in the second quarter of 2006.

Franchise acquisitions boosted vehicle rental revenue 10.4 percent to $431.1 million, with revenue per day up 5.6 percent and rental days up 4.6 percent.

"While 5.6-percent growth in revenue per day would typically be considered strong, it was below where we had been trending for the previous six months," said Paxton.

Total transactions rose 1.6 percent on a same-store basis, which the company said was in line with airline traffic trends. But rental days fell 1.9 percent due to shorter average transaction length.

"Virtually all their business is dependent on airlines," said Russell. "They've got one big problem, and that is, increasingly, flying on commercial airlines is like taking your mother-in-law out to dinner. It's not a very pleasant experience. And so people are traveling because often they're desperate or they have to, but the idea of spontaneously calling airlines and making a reservation and traveling on the spur of the moment is pretty much a legacy behavior."

Meredith Bohot, Russell's assistant portfolio manager, said shorter transaction lengths could reflect both corporate and consumer efforts to reduce travel time and expenditures.

"Their accounting for their trips is more ruthless than ever," agreed Russell. "This is a commodity business and, as Meredith said, when companies cut back, the commodities are the first to go."

For the six months ended June 30, Dollar Thrifty's net income fell 57.7 percent to $20.5 million, or 84 cents per diluted share, from $48.5 million, or $1.87 diluted, the prior year.

Revenue increased 8.5 percent to $849.6 million from $721.17 million.

In a roller-coaster day that dropped its shares $1.78, Dollar Thrifty stock closed Tuesday down 96 cents at $31.50. Volume totaled 1.16 million shares, three times its daily average.

Dollar Thrifty's earnings for the latest quarter included transition costs of 7 cents a share reflecting first-quarter moves to outsource a couple of hundred information technology and call center jobs, as well as financing fees. This was counter-balanced by a 3-cent gain from derivatives.

Over the first six months these increased to 34 cents per share of unfavorable change in fair value of derivatives and 13 cents per share of outsourcing transition costs and deferred financing fees.

Last week Dollar Thrifty Automotive Group cut 75 positions from its Tulsa administrative staff, 24 of them already unfilled, as part of a general restructuring to trim its operational costs. That came on top of February's decision to eliminate 200 call center jobs, outsourcing those activities to EDS, a Plano, Texas-based business and technology services firm.

Officials said cutting the management positions will give Dollar Thrifty $7 million in annual pretax cost savings, countered somewhat by a $2.5 million charge in pretax severance costs during the third quarter.

The company has implemented lean-management productivity improvements in each field location. This fall it will install fleet optimization software to help manage fleet costs.

"Today's trends reveal a stable travel environment with healthy revenue per-day increases," said Paxton. While rental pricing rose sharply in July and August, he expects more moderate increases in the off-peak months to follow.

While the firm foresees continued rental-day volume growth from franchise acquisitions, new local market stores and a more diversified customer base, Paxton also expects moderate vehicle cost increases in the third and fourth quarters, when the firm annualizes higher-cost 2007 models and starts buying 2008 models. Paxton said prior-year price hikes also will make passing fourth-quarter increases to customers more challenging.

“It looks like they’re in a brutal price war,” said Russell, who credited the company for squeezing out more revenue through rental features customers will pay extra for, such as Garman global positioning systems. “Management is doing the best they can under difficult circumstances.”

While it still expects a 7- to 9-percent increase this year in revenue per day, Dollar Thrifty lowered its same-store rental day estimate 2 percent, with total rental days projected up 3 to 4 percent. The company lowered its 2007 earnings guidance to range from $2 to $2.40 a share. It had stood at $2.50 to $2.90 a share.

“We expect full-year 2007 vehicle depreciation costs measured on a cost-per-vehicle basis will increase about 25 percent over the prior year,” he said. “We estimate the 2008 model year vehicle cost increases will moderate substantially from the increase experienced in 2007, including our plan to increase the mix of non-program vehicles.”

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