

Tulsa-based Dollar Thrifty stock takes beating despite revenue, earnings boosts by Kirby Lee Davis

OKLAHOMA CITY, OK -- Record revenue helped the struggling Dollar Thrifty Automotive Group almost double its third-quarter earnings, although those marks still fell short of Wall Street estimates.

Continued increases in depreciation costs and reduced vehicle shipments spurred the Tulsa car rental company to reduce its earnings guidance for the year.

With the Dow Jones Industrials dropping 361 points, Dollar Thrifty's stock plunged more than \$5 Wednesday on the New York Stock Exchange before closing down \$4.88 at \$27.79.

"Today was not a good day to report earnings," said Stephen Shepherd, an assistant portfolio manager at Fredric E. Russell Investment Management Co. and a former Dollar Thrifty employee. "The actions taken by China to diversify greenbacks kind of tanked the market just across the board. If you look at technology, industrial, everything's getting hammered today. You've got to take a step back and say there's probably some overreaction to that."

With industry bedfellow Avis Budget Group Inc. also lowering its 2007 outlook Wednesday and taking a hit, Shepherd acknowledged the car-rental sector was specifically targeted. Dollar Thrifty's stock trading volume of 1.33 million shares proved 10 times its daily average over the past 13 weeks.

"It will probably be beaten back for the next few months," he said. "Maybe after the next report, if it looks more promising, there might be some sort of upturn."

Like many others in the industry, Dollar Thrifty has struggled this year to contain rising operating expenses. Although it has enjoyed some success passing costs on to consumers through higher rental rates, in February Dollar Thrifty trimmed 200 call center jobs, outsourcing those activities to EDS. Six months later it cut 25 percent from its Tulsa administrative staff in a general restructuring, which played a role in its third-quarter results.

"We achieved this increase in profitability despite the headwinds of a 20-percent increase in vehicle depreciation costs," said Dollar Thrifty President and Chief Executive Gary L. Paxton. "We continued to trade off strong revenue per-day increases for lower rental-day volume growth."

But since those rental-rate hikes started in the fourth quarter of 2006, officials warned that Dollar Thrifty will face tougher year-ago comparisons going forward.

For the three months ended Sept. 30, the company posted a net income of \$11.3 million, or 48 cents per diluted share, almost double the \$5.9 million, or 24 cents, recorded the prior year.

Adjusting for derivative values, non-GAAP earnings per diluted share rose 21.6 percent to \$1.01 from 83 cents the prior year.

Dollar Thrifty also recorded charges of 8 cents per share to write off obsolete software and 7 cents for severance costs. It had similar charges of 7 cents and 3 cents the prior year.

Analysts surveyed by Zacks Investment Research of Chicago had projected earnings of \$1.10 per share. A First Call/Thomson Financial analyst survey had pegged profits at \$1.14 per share from revenue of \$534.8 million.

Dollar Thrifty posted total revenue up 7.7 percent to \$522 million from \$484.7 million. Vehicle rental revenue rose 11 percent to \$501.4 million, reflecting an 11-percent hike in revenue per day.

For the nine months ended Sept. 30, DT earnings fell 41 percent to \$31.8 million, or \$1.32 per diluted share, from \$54.3 million, or \$2.12, the prior year. Adjusted for derivatives, company earnings fell 23 percent to \$1.76 per diluted share from \$2.29. Revenue increased 8.2 percent to \$1.37 billion from \$1.26 billion.

Looking ahead, Dollar Thrifty expects continued vehicle depreciation costs on its aging fleet will lessen as it adds newer vehicles, but it expects a temporary delay in those shipments to impact fourth-quarter depreciation expense.

“Until they can replace that entire fleet,” said Shepherd, “that’s going to adversely affect their bottom line.”

From that and other factors the company lowered its projected earnings for 2007 to range between \$1.75 and \$1.85 per share, down from an earlier estimate of \$2 to \$2.40. Analysts polled by Thomson Financial had estimated \$2.16. The Zacks poll projected earnings of \$2.11 for 2007 and \$2.94 for '08.

That fit Paxton’s general optimism for the coming year.

“We have raised our pricing significantly over the past two years to partially offset 25-percent increases in vehicle costs in both 2006 and 2007,” he said. “We expect vehicle-cost increases to moderate significantly in 2008. The combined effects of our revenue growth initiatives, along with the benefit we will see in 2008 of significant cost actions already taken, and the opportunity to further reduce costs with our new fleet optimization software, fuel our optimism for the upcoming year.”

Dollar Thrifty bought back 8 percent of its outstanding stock during the third quarter, at a cost of \$60.1 million. If it had waited until after Wednesday’s close, Dollar Thrifty might have saved \$5 million. But the company still has \$128.6 million authorized for stock buybacks through Dec. 31.

“They’ve got plenty of time left to do that,” said Shepherd, who saw hopeful elements in the Dollar Thrifty report. The software improvements, for example, should improve operating efficiencies and interactivity between Dollar and Thrifty.

“They’re doing all the right things,” he said. “If there’s upward movement in the economy, they’ll be OK.”