



THE GLOBE AND MAIL 

December 5, 2012

Stock to watch: Coinstar poised to battle Netflix

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Deal with Verizon could recharge shares

Coinstar Inc.

Wednesday's close: \$50.14 (U.S.) a share, up \$2.77

52-week trading range: \$40.50 - \$71.82

Annual dividend: none

Analysts' ratings: There were 8 buys, 6 holds and 1 sell, according to Bloomberg data. Target prices range from \$30 to \$90 a share, reflecting strong bearish and bullish views on the stock.

Recent history: Shares of the U.S.-based operator of the Redbox chain of movie rental kiosks are up nearly 10 per cent this year, but it's been a rough ride. Its stock nosedived 44 per cent from its July peak to a 52-week low in October because of slower-than-expected sales. Coinstar's core DVD business has grown by undercutting rivals like bankrupt Blockbuster Inc., but there is now concern about competition from players offering an online video-streaming service like Netflix Inc., and falling growth in its legacy coin-counting machine business.

Outlook: Netflix announced this week that it has inked a multi-year deal to carry Walt Disney Co. films by 2016, but investors seemed to shrug off that news on Wednesday. "There is still growth in the kiosk business, but not wild growth," said Randall Kelly, chief executive officer of Montreal-based investment firm Formula Growth Ltd., which has owned Coinstar stock since late summer. With more than 37,000 Redbox machines, Coinstar has about 42 per cent of the U.S. market, while expansion to Canada and Britain will help stem the declining revenues, he said.

He disagrees that consumers will flock to video online because that would require a high-speed Internet service that not everyone can afford. "The demise of the Redbox business will be far slower than anybody thinks," he argued. "[Coinstar's] stock price is priced like the business is vaporizing tomorrow, but it is not."

Catalysts that could boost its stock include the purchase of the DVD rental kiosks from NCR Corp. that should bring Coinstar's U.S. market share to more than 50 per cent when the merger is complete, Mr. Kelly said. But the "kicker" for the story is that Coinstar is expanding into the video-streaming business through a joint venture with Verizon Communications Inc. The two firms have been mum on details, but some are leaking out. Redbox Instant, their new venture to be launched next year, will undercut competitors like Netflix by charging subscribers \$6 a month for a basic plan, according to GigaOM, a technology website.

"As this news gets digested, I think Coinstar's stock gets a lift," Mr. Kelly said. "It may be happening now." He expects Wall Street analysts will increase the multiple on its stock, which trades cheaply at three times EBITDA [earnings before interest, taxes, depreciation and amortization]. His one-year target is \$70-to-\$80 a share.