



Coinstar Inc. (CSTR)

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Business Overview

- Owns and operates network of 10,800 machines that offer coin counting and other electronic services.
- Linked by an interactive network throughout the United States, Canada and the UK.
- Keeps 8.9 % of processed money. Gives 1% to the supermarket.

Business Overview

Americans have \$10.5 billion worth of change
An average of \$99 per household

Container Size	Estimated Value
32 ounces	\$57.08
Half gallon	\$114.17
One gallon	\$228.34



Investment Thesis

- Coinstar is the only major player in an attractive industry and has established many competitive advantages
- Profitable expansion opportunities are being effectively exploited by management
- Market misperception about Coinstar from loss of Safeway resulting in a low valuation

Attractive Industry

- Average person goes to supermarket 2.2 per week
- Supermarkets are open long hours
- Banks as competitors?
 - Very limited hours
 - Discourage coin changing because it does not generate revenue
 - Frequently charge fees of 2%-10% for non account holders
 - May take 3-5 days to credit account
 - Fleet, Chase, Bank of America

Attractive Industry

- Supermarkets benefit from Coinstar in many ways:
 - No store involvement, no training, no product inventory, no tie-up at the checkout and the elimination of loss and theft
 - Free coin changing/removal for supermarket
 - Attract customers
 - 44% of Coinstar users spend the money on the premises

Technology

- \$12,000 per machine
- \$3,500 for software
- 54 US and Foreign patents
 - Counterfeiting
 - Coin Cleaning
- Holds 1,000 lbs of coins
- Can count 600 coins per minute
- Generate over \$16,000 in revenues per year



Technology

Real Time Network

- Pick up coins within 4-6 hours
- Reduces lost revenue from equipment breakdown
- 95% machine up-time

Frost & Sullivan Technology Award 2004

1. Significance of new product in its industry
2. Competitive advantage of product
3. Innovation—unique or revolutionary technology
4. Value-added services provided to customers

Economies of Scale

- Fairly capital intensive business
 - Collection and Maintenance
 - Coins are heavy
- Coinstar saves money on service and collection because of the shorter distance between machines
 - 3rd party armored car company
- Need the resources to do things right

Expansion Opportunities

- Increase same machine usage by marketing, promotions (6% growth in 2003)
 - 80% of customers are repeat users—High ROI
- Customer demand exists in other stores
 - Walmart, Giant, Kmart, CVS
- Programs in UK and Canada are successful
 - Increased presence in these countries
- Coinstar can add an additional 7,000-8,000 profitable machines (75% increase in machines)

Expansion Opportunities

- Prepaid wireless, debit cards, wage statements, balance inquires and other payroll services
 - Rollout is 20% higher than previously announced 2003 goals
- Expects to have 300,000 employees enrolled in the service by Fall of 2004
- Coinstar incurs almost no cost for this service, and in return receives a small per transaction fee
- Creates new markets for less trafficked areas with less expensive machine without coin capabilities

Expansion Opportunities

- Prepaid segment alone represented \$99 billion in 2003 and is projected to grow to \$154 billion by 2005. This includes prepaid wireless, digital content and stored value cards
- "Combining the accessibility of supermarkets with the usability of Coinstar's self-service kiosk, creates a powerful distribution weapon"
 - Marc Jacobs, Industry Analyst

Misperceptions

- In July 2003, Coinstar lost its 3rd largest customer, Safeway Supermarkets (10% revenue)
- Coinstar stock immediately lost 1/3 market value

Raised serious questions about Coinstar's future...

Will other supermarkets follow Safeway?

What will this mean for the future of Coinstar?

Misperceptions

Will other supermarkets follow Safeway? NO, because...

- Safeway's CoinMasters are down over 33% of the time
- 20 of 20 chains that tried own coin counting have returned to Coinstar
- Coin machines are expensive, \$8,000-15,000 before maintenance and pick up
- Most supermarkets view Coinstar as a "customer service," not a profit center
 - Reduced incentive to try to do it themselves
 - This is a service business, not a commodity business

Misperceptions

- Coinstar recently signed multiyear contracts with Kroger and Ahold USA, representing 30% of revenues in 2003

“Our number one priority is taking care of our customers, adding value, and serving their needs. We selected Coinstar because of its reliability, turnkey service, and ease of use.”

-Barry Scher, VP of public affairs and communications at Ahold USA.

Misperceptions

Low insider stock purchase/holdings. CSTR has an ESPP plan that allows the employee to use up to 15% of their salary to purchase stock at an 85% discount. As this does not appear to show up on the insider transactions record, it seems that there may be a bunch of buying going that can't be seen.

Financials

- Market Cap 396.8M
- P/E (ttm) 20.78
- PEG 1.27
- Debt/Equity .153
- ROE 18.05%
- ROIC 14.85%
- WACC 13.1%
- FCF 28.64M

Summary

- Do customers value Coinstar's product and is the demand likely to grow? **Yes**
- Does Coinstar have a sustainable competitive advantage? **Yes**
- Does Coinstar have the resources to exploit the opportunity in front of them? **Yes**
- Is the cash flow generation and efficiency of the company compelling? **Yes**

Questions?