

Analyst: Sung Nam

Coinstar, Inc. (CSTR)

Market Price:	\$42.69	EBITDA/Share:	\$11.00	Net Asset/Share:	\$5.39
DCF: EV/EBITDA Terminal Value	5.724%	DCF: Net Tangible Asset excluding Cash/Debt Terminal Value			-9.575%
Current Net Tangible Asset	36.798%	EVA Analysis:			15.195%

Overview

Coinstar operates the vending machines in front of the supermarkets. Gumball machines, convert change to cash machine, and namely, Redbox dvd vending machines. As a result, growth has been phenomenal in the paste couple years, averaging around 40% annually. We are forecasting a 10% growth in Year 5.

Many anticipate Redbox to be spun off as a separate entity. We will not do a sum of parts valuation. The namebrand is for the change machine, but the growth is from Redbox.

Dividend?

No dividend, have to burn the fire for growth.

Cashflow Generation

Cashflows are fantastic. 20% EBITDA margin, or roughly \$300 MM-400MM. Capex is \$180 MM, leaving \$100- \$200 MM, which can be used to pay down debt. We are conservatively assuming a \$40MM paydown annually on the \$400 MM debt balance.

Profitability

ROA is 5%, and ROC is 8%.

LBO?

We don't believe a 80% debt/20% equity would be sustainable. Therefore, we are not going to project a LBO scenario. Rather, we will just include the shares in our portfolio.

Price

We are forecasting a \$60.29/share in Year 5, or or 7.15% annual return.

Thus, the 1 year forecasted price is \$45.75. Finviz is showing a \$70 price target. Median price on Financial Times is \$65, up to \$80, low \$50.

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LBO Analysis

WACC Terminal Value:		Intrinsic Price in 5 Years:	60.29	Non-LBO Forecast		Non-LBO Forecast	
EV/EBITDA with 5X Multiple Terminal Value:	\$56.39	Market Price:	42.69	Year 1 Target	45.74	Desired Return Rate	20.00%
Net Tangible Asset Terminal Value:	\$25.81	LBO Price:	42.69	Year 2 Target	49.01	Implied Today's Price	24.23
EV/EBITDA with Today's Multiple Terminal Value:	\$108.44	Premium to Market Price:	0.00%	Year 3 Target	52.51	Overvalued/(Undervalued)	76.19%
EVA Enterprise Value:	\$50.52	LBO Price/Intrinsic Price Target:	7.15%	Year 4 Target	56.27		
Average:	\$60.29	LBO Price/EV/EBIT Exit Price:	20.50%	Year 5 Target	60.29		
		Implied IRR at today's EV/EBIT:	20.50%	Implied IRR (Market Price):	7.15%		

Current Evaluation				Exit Evaluation			
Current Market Price:	42.69	LBO Price:	42.69	Exit Price:	60.29	Exit Price:	108.44
Outstanding Shares:	30,780,000	Outstanding Shares:	30,780,000	Outstanding Shares:	30,780,000	Outstanding Shares:	30,780,000
Market Capitalization:	1,313,998,200	Market Capitalization:	1,313,998,200	Market Capitalization:	1,855,761,260	Market Capitalization:	3,337,910,624
Available Cash:	71,290,000	Available Cash:	71,290,000	Available Cash:	667,049,064	Available Cash:	667,049,064
Debt:	377,320,000	Debt:	377,320,000	Debt:	177,320,000	Debt:	177,320,000
Net Cash:	(306,030,000)	Net Cash:	(306,030,000)	Net Cash:	489,729,064	Net Cash:	489,729,064
Enterprise Value:	1,620,028,200	Enterprise Value:	1,620,028,200	Enterprise Value:	1,366,032,196	Enterprise Value:	2,848,181,560
Original EV/EBIT:	11.28	EV/EBIT:	11.31	EV/EBIT at 5 Years:	5.42	EV/EBIT at 5 Years:	11.30
Original EV/EBITDA:	4.77	EV/EBITDA:	6.00	EV/EBITDA at 5 Years:	3.54	EV/EBITDA at 5 Years:	5.96
Competitor Average EV/EBIT:	N/A						
Competitor Average EV/EBITDA:	N/A						

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	42.69	43.90	47.04	50.40	54.00	57.86	62.00
Shares Outstanding:	30,780,000	30,780,000	30,780,000	30,780,000	30,780,000	30,780,000	30,780,000
Market Capitalization:	1,313,998,200	1,351,215,523	1,447,805,068	1,551,299,167	1,662,191,382	1,781,010,554	1,908,323,330
Available Cash:	71,290,000	71,290,000	116,765,006	203,598,719	324,451,182	483,605,604	667,049,064
Debt:	377,320,000	377,320,000	337,320,000	297,320,000	257,320,000	217,320,000	177,320,000
Net Cash:	-306,030,000	-306,030,000	-220,554,994	-93,721,281	67,131,182	266,285,604	489,729,064
Enterprise Value:	1,620,028,200	1,657,245,523	1,668,360,062	1,645,020,449	1,595,060,200	1,514,724,950	1,418,594,266
EBIT	146,500,000	146,500,000	181,799,485	209,069,408	230,662,964	252,814,921	252,051,466
EV/EBIT:	11.06	11.31	9.18	7.87	6.92	5.99	5.63
EBITDA	270,190,000	270,190,000	329,227,464	378,611,584	416,472,742	458,120,016	477,548,142
EV/EBITDA:	6.00	6.00	5.07	4.34	3.83	3.31	2.97

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	42.69	43.90	59.65	73.79	86.95	101.57	108.54
Shares Outstanding:	30,780,000	30,780,000	30,780,000	30,780,000	30,780,000	30,780,000	30,780,000
Market Capitalization:	1,313,998,200	1,351,215,523	1,836,007,346	2,271,325,410	2,676,449,712	3,126,192,738	3,340,999,799
Available Cash:	71,290,000	71,290,000	116,765,006	203,598,719	324,451,182	483,605,604	667,049,064
Debt:	377,320,000	377,320,000	337,320,000	297,320,000	257,320,000	217,320,000	177,320,000
Net Cash:	-306,030,000	-306,030,000	-220,554,994	-93,721,281	67,131,182	266,285,604	489,729,064
Enterprise Value:	1,620,028,200	1,657,245,523	2,056,562,340	2,365,046,691	2,609,318,530	2,859,907,134	2,851,270,735
EBIT	146,500,000	146,500,000	181,799,485	209,069,408	230,662,964	252,814,921	252,051,466
EV/EBIT:	11.06	11.31	11.31	11.31	11.31	11.31	11.31
EBITDA	270,190,000	270,190,000	329,227,464	378,611,584	416,472,742	458,120,016	477,548,142
EV/EBITDA:	6.00	6.00	6.25	6.25	6.27	6.24	5.97

LBO Price	42.69	Equity Partners:	1,313,998,200	Weighting	100.00%	Annualized Return for Equity Partners: 20.50%
Shares Outstanding	30,780,000	Debt Partners:	0		0.00%	
Market Capitalization	1,313,998,200	Total Funds for LBO:	1,313,998,200		100.00%	

Book Value		Enterprise Value		Stock Valuation		Debt Reduction	
Beginning Book Value	1,314.00	Beginning Enterprise Value	1,620.03	Current Market Price	\$42.69	Starting Debt	167.26
Year 5 Book Value	2,006.19	Year 5 Enterprise Value	2,848.18	Year 5 Market Price	\$108.44	Debt Repayment	100.00
Annualized Return	8.83%	Annualized Return	11.95%	Annualized Return	20.50%	Year 5 Ending Debt	67.26
						% of Starting Debt	40.21%

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LBO Debt Schedule

CSS	Proforma	2011	2012	2013	2014	2015
Net Change in Cash	37.56	45.48	86.83	120.85	159.15	183.44
Current Portion Debt Repayment		20.00	20.00	20.00	20.00	20.00
Long Term Debt Repayment		20.00	20.00	20.00	20.00	20.00
Outstanding Debt	365.16	325.16	285.16	245.16	205.16	165.16
Current Portion Debt Balance	197.9	177.90	157.90	137.90	117.90	97.90
Long Term Debt Balance	167.26	147.26	127.26	107.26	87.26	67.26
Forward Libor Curve		4.00%	4.50%	5.00%	5.50%	6.00%
Spread		4.00%	3.50%	3.00%	2.50%	2.00%
Interest Rate		8.00%	8.00%	8.00%	8.00%	8.00%
Interest Expense		26.01	22.81	19.61	16.41	13.21
EBITDA		181.80	209.07	230.66	252.81	252.05
EBITDA/Interest Expense Coverage		6.99	9.16	11.76	15.40	19.08

Interest Rate Coverage Table

Debt Rating					
AAA				AAA	AAA
AA			AA		
A+		A+			
A	A				
A-					
BBB					
BB+					
BB					
B+					
B					
B-					
CCC					
CC					
C					
D					

*Source: NYU; Professor Damodaran

	Historical				Forecasted				
	12 months ending 2007-12-31	12 months ending 2008-12-31	12 months ending 2009-12-31	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Revenue	307.38	650.08	1,032.62	1,436.42	1,723.70	1,982.26	2,180.49	2,398.53	2,638.39
COGS	153.69	408.21	716.04	1,000.94	1,206.59	1,407.40	1,569.95	1,750.93	1,952.41
Gross margin	153.69	241.87	316.58	435.48	517.11	574.86	610.54	647.60	685.98
SG&A	53.95	86.87	116.58	152.47	172.37	178.40	174.44	167.90	184.69
R&D	5.15	4.76	5.31	7.44	8.62	9.71	10.90	11.99	13.19
Unusual expense	1.79	4.10	1.08	5.38	6.89	7.93	8.72	9.59	10.55
Other operating expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation	29.82	56.42	86.42	123.69	147.43	169.54	185.81	205.31	225.50
Operating Income (EBITA)	57.77	86.14	103.63	143.21	181.80	209.07	230.66	252.81	252.05
Interest income/(expense)	-12.86	-21.37	-34.22	-34.28	-26.01	-22.81	-19.61	-16.41	-13.21
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before tax	44.91	64.77	69.41	108.93	155.79	186.26	211.05	236.40	238.84
Tax	22.11	19.04	25.72	43.04	46.74	55.88	63.32	70.92	71.65
Income after tax	22.80	45.73	43.69	65.89	109.05	130.38	147.74	165.48	167.19
Minority Interest	0.00	-14.44	-3.63	0.00	-5.65	-4.59	-5.17	-5.87	-6.36
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	22.80	31.29	40.07	65.89	103.40	125.79	142.56	159.61	160.82
*Figures are in millions (\$)									
Revenue Growth	N/A	111.49%	58.85%	39.10%	20.00%	15.00%	10.00%	10.00%	10.00%
Tax Rate	49.23%	29.40%	37.06%	39.51%	30.00%	30.00%	30.00%	30.00%	30.00%
Margins									
COGS	50.00%	62.79%	69.34%	69.68%	70.00%	71.00%	72.00%	73.00%	74.00%
Gross margin	50.00%	37.21%	30.66%	30.32%	30.00%	29.00%	28.00%	27.00%	26.00%
SG&A	17.55%	13.36%	11.29%	10.61%	10.00%	9.00%	8.00%	7.00%	7.00%
R&D	1.68%	0.73%	0.51%	0.52%	0.50%	0.50%	0.50%	0.50%	0.50%
Unusual expense	0.58%	0.63%	0.10%	0.37%	0.40%	0.40%	0.40%	0.40%	0.40%
Other operating expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Depreciation	9.70%	8.68%	8.37%	8.61%	8.55%	8.55%	8.52%	8.56%	8.55%
Operating Income	18.79%	13.25%	10.04%	9.97%	10.55%	10.55%	10.58%	10.54%	9.55%
Interest income/(expense)	-4.18%	-1.98%	-3.31%	-2.39%	-1.51%	-1.15%	-0.90%	-0.68%	-0.50%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	14.61%	9.96%	6.72%	7.58%	9.04%	9.40%	9.68%	9.86%	9.05%
Tax	7.19%	2.93%	2.49%	3.00%	2.84%	2.85%	2.86%	2.86%	2.86%
Income after tax	7.42%	7.03%	4.23%	4.59%	6.33%	7.56%	8.57%	9.60%	9.70%
Minority Interest	0.00%	-2.22%	-0.35%	0.00%	-0.33%	-0.23%	-0.24%	-0.24%	-0.24%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	7.42%	4.81%	3.88%	4.59%	6.00%	6.35%	6.54%	6.65%	6.10%

	As of 2007-12-31	As of 2008-12-31	As of 2009-12-31	As of 2010-12-31	2011	2012	2013	2014	2015
Cash	21.40	66.41	19.39	71.29	102.43	189.26	310.11	469.27	652.71
Short term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash and Short term	21.40	66.41	19.39	71.29	102.43	189.26	310.11	469.27	652.71
Accounts Receivable	49.81	51.91	19.27	25.96	25.96	25.96	25.96	25.96	25.96
Other receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receivables	49.81	51.91	19.27	25.96	25.96	25.96	25.96	25.96	25.96
Deferred Income Tax	0.00	0.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Total Inventory	33.36	92.25	95.53	140.32	140.32	140.32	140.32	140.32	140.32
Prepaid Expenses	18.75	24.71	7.76	14.74	14.74	14.74	14.74	14.74	14.74
Other Current Assets	178.65	132.51	298.14	236.09	236.09	236.09	236.09	236.09	236.09
Current Assets	301.97	367.79	440.08	488.39	519.53	606.36	727.21	866.37	1,069.81
PP&E, Gross	417.12	679.58	730.13	866.17	1,046.17	1,226.17	1,406.17	1,586.17	1,766.17
Change in Depreciation	29.82	56.42	86.42	123.69	147.43	169.54	185.81	205.31	225.50
Accumulated Depreciation	271.09	330.63	417.05	540.74	688.17	857.71	1,043.52	1,248.83	1,474.32
PP&E, Net	146.03	348.95	313.08	325.43	358.00	368.46	362.65	337.34	291.85
Goodwill	221.46	290.39	267.75	267.75	267.75	267.75	267.75	267.75	267.75
Intangibles	34.46	43.38	14.99	9.57	-5.07	-16.58	-29.06	-43.30	-60.42
Long term investments	33.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	31.60	16.20	113.55	72.31	72.31	72.31	72.31	72.31	72.31
Long Term Assets	737.69	1,029.55	709.37	675.06	692.99	691.94	673.65	634.11	571.49
Total Assets	768.57	1,066.71	1,222.80	1,282.71	1,212.51	1,298.30	1,400.86	1,520.48	1,641.30
Accounts Payable	49.83	132.19	80.08	161.55	161.55	161.55	161.55	161.55	161.55
Accrued Expense	136.84	202.78	169.73	202.92	202.92	202.92	202.92	202.92	202.92
Other current Liabilities	4.07	17.21	70.92	70.92	70.92	70.92	70.92	70.92	70.92
Total Current Liabilities	190.74	352.18	341.64	435.39	435.39	435.39	435.39	435.39	435.39
Notes Payables/Short Term Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	6.50	31.92	33.13	197.90	177.90	157.90	137.90	117.90	97.90
Long term Debt	266.15	295.94	409.39	409.39	147.26	127.26	107.26	87.26	67.26
Capital Lease Obligations	0.00	23.51	26.23	12.16	12.16	12.16	12.16	12.16	12.16
Total Interest Earning Debt	272.65	351.37	468.75	377.32	337.32	297.32	257.32	217.32	177.32
Deferred Income tax	0.05	12.07	0.02	0.01	0.01	0.01	0.01	0.01	0.01
Minority Interest	0.00	31.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	0.00	0.00	0.00	26.85	26.85	26.85	26.85	26.85	26.85
Total Liabilities	463.44	746.68	810.41	839.57	799.57	759.57	719.57	679.57	639.57
Redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	354.51	369.74	406.33	434.17	434.17	434.17	434.17	434.17	434.17
Additional Paid-in capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividends Paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	-16.78	-2.67	50.97	101.98	205.38	331.17	473.73	633.35	794.17
Treasury Stock	-40.83	-40.83	-40.83	-90.08	-90.08	-90.08	-90.08	-90.08	-90.08
Other Equity	8.24	-6.20	-4.08	-2.95	-2.95	-2.95	-2.95	-2.95	-2.95
Total Equity	305.14	320.04	412.39	443.12	546.52	672.31	814.87	974.49	1,135.31
Liability + Equity	768.58	1,066.72	1,222.80	1,282.69	1,346.09	1,431.88	1,534.44	1,654.06	1,774.88
Variance	0	0	0	0	-134	-134	-134	-134	-134
Total Shares Outstanding	27.74	28.26	31.08	31.82					

SN VALUATION

Pro Forma Cash Flow

Name:

Coinstar, Inc.

Ticker:

CSTR

	12 months ending 2007-12-31	12 months ending 2008-12-31	12 months ending 2009-12-31	12 months ending 2010-12-31	2011	2012	2013	2014	2015
Net Income	-22.25	28.55	57.27	51.01	103.40	125.79	142.56	159.61	160.82
Depreciation	29.82	56.42	86.42	123.69	147.43	169.54	185.81	205.31	225.50
Amortization	5.92	3.98	5.04	5.34	14.64	11.50	12.48	14.24	17.12
Deferred Taxes	-9.14	12.10	14.68	41.40	0.00	0.00	0.00	0.00	0.00
Non Cash Items	80.79	48.03	-9.17	21.19	0.00	0.00	0.00	0.00	0.00
Change in Working capital	-27.07	41.56	-38.62	63.47	0.00	0.00	0.00	0.00	0.00
Accounts Receivable		-2.10	32.64	-6.69	0.00	0.00	0.00	0.00	0.00
Other Receivables		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory		-58.89	-3.28	-44.79	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses		-5.96	16.95	-6.98	0.00	0.00	0.00	0.00	0.00
Accounts Payable		82.36	-52.11	81.47	0.00	0.00	0.00	0.00	0.00
Cash from Operating Activities	58.06	190.64	115.62	306.10	265.48	306.83	340.85	379.15	403.44
Capital Expenditures	-54.90	-144.05	-148.47	-170.85	-180.00	-180.00	-180.00	-180.00	-180.00
Long term investment					0.00	0.00	0.00	0.00	0.00
Intangibles	-44.38	-57.02	-4.66	25.16	0.00	0.00	0.00	0.00	0.00
Cash from Investing Activities	-99.27	-201.07	-153.13	-145.69	-180.00	-180.00	-180.00	-180.00	-180.00
Financing Cash flow items	-4.94	-5.25	-120.39	6.72	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	-5.74	8.63	15.97	-17.62	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	68.97	-3.98	143.82	-111.31	-20.00	-20.00	-20.00	-20.00	-20.00
Issuance (Retirement) of Long Term Debt					-20.00	-20.00	-20.00	-20.00	-20.00
Cash from Financing Activities	58.28	-0.60	39.40	-122.21	-40.00	-40.00	-40.00	-40.00	-40.00
Foreign Exchange effect	1.35	-8.97	3.47	-0.64					
Beginning Cash Balance	2.97	21.40	66.41	19.39	56.95	102.43	189.26	310.11	469.27
Net Change in Cash	18.43	-20.00	5.36	37.56	45.48	86.83	120.85	159.15	183.44
Ending Cash Balance	21.40	66.41	71.77	56.95	102.43	189.26	310.11	469.27	652.71
Cash Interest Paid	18.23	13.96	27.97	26.22					
Cash Taxes Paid	3.48	3.64	1.33	2.67					
Depreciation to Sales	9.70%	8.68%	8.37%	8.61%	8.55%	8.55%	8.52%	8.56%	8.55%
Amortization to Sales	1.93%	0.61%	0.49%	0.37%	0.85%	0.58%	0.57%	0.59%	0.65%
A/R to Sales	16.20%	7.99%	1.87%	1.81%	1.51%	1.31%	1.19%	1.08%	0.98%