

# Coinstar's stock soars on strong 4Q for Redbox

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In this photograph taken by AP Images for Redbox, Bob Mudge, right, president of Verizon Consumer and Mass Business Markets, and Paul Davis, CEO of Coinstar, Inc. announced today, Monday, Feb. 6, 2012, in New York, a joint venture that delivers a combination of Redbox entertainment options with an on-demand streaming service from Verizon, Inc. Redbox Automated Retail, LLC is a wholly-owned subsidiary of Coinstar, Inc. (Diane Bondareff/AP Images for Redbox)

(AP) -- Coinstar's fourth-quarter earnings soared past analyst estimates as the company's Redbox kiosks for renting DVDs picked up customers who stopped getting their discs through Netflix's rival service.

The performance announced Monday was sandwiched amid a couple deals aimed at making Redbox an even bigger player in the home entertainment market. Investors were particularly impressed with the

fourth-quarter numbers and outlook for this year, lifting Coinstar's stock by more than 16 percent in extended trading.

The quarterly results came a few hours after Coinstar Inc. unveiled a partnership with Verizon Communications Inc. to challenge Netflix in another format - streaming video to TVs and other devices with high-speed Internet connections. The subscription service is scheduled to debut during the final half of this year.

Coinstar also made it clear the streaming expansion wouldn't less its commitment to DVD rentals with by announcing plans to buy 10,000 kiosks and other entertainment assets from rival NCR Corp. for up to \$100 million. That deal is expected to close in the third quarter of this year.

Coinstar prospered during the final three months of last year, partly because Netflix Inc. has been de-emphasizing its DVD-by-mail rental service to concentrate on expanding its Internet video library. Netflix lost 2.8 million DVD subscribers during the fourth quarter, with many of them deciding to stick with Internet video streaming.

But Coinstar's showing suggests some of Netflix's former DVD-by-mail customers may still occasionally rent discs from the 35,000 kiosks that Redbox has set up in more than 29,000 stores and fast-food restaurants throughout the country.

"I do think we are picking up Netflix customers," J. Scott Di Valerio, Coinstar's chief financial officer, said in an interview. "We have stayed focused on giving the customers what they want."

The influx of Netflix customers help offset some of the business that Redbox lost after raising its DVD rental prices from a \$1 to \$1.20 per day in October.

Coinstar also negotiated lower processing fees on debit- and credit-card transactions during November and December, another factor that gave the company's earnings an unexpected lift.

The company, which is based in Bellevue, made \$31.5 million, or \$1 per share, in the quarter. That compared to net income of \$11.7 million, or 35 cents per share, at the same time in 2010. The results for 2010 included a loss of \$10.7 million from operations that are no longer part of Coinstar.

Analysts polled by FactSet had predicted Coinstar would earn 65 cents per share.

Revenue for the most recent quarter climbed 33 percent from the previous year to \$520.5 million - about \$22 million above analyst forecasts.

Coinstar shares rose \$8.34 to \$57.20 in extended trading.

As usual, Redbox served as Coinstar's catalyst. Revenue at the rental kiosks surged nearly 40 percent to \$446 million during the fourth quarter.

Coinstar is expecting Redbox's recent momentum to continue in the current quarter ending in March. Netflix, meanwhile, already has predicted it will lose around 1.5 million DVD subscribers during the same period.

Coinstar predicted its per-share earnings for the first quarter will range from 76 cents to 91 cents on revenue \$530 million to \$555 million. Analysts had forecast earnings of 86 cents per share on revenue of \$517 million.

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