



Blockbuster, Inc.

NYSE: BBI

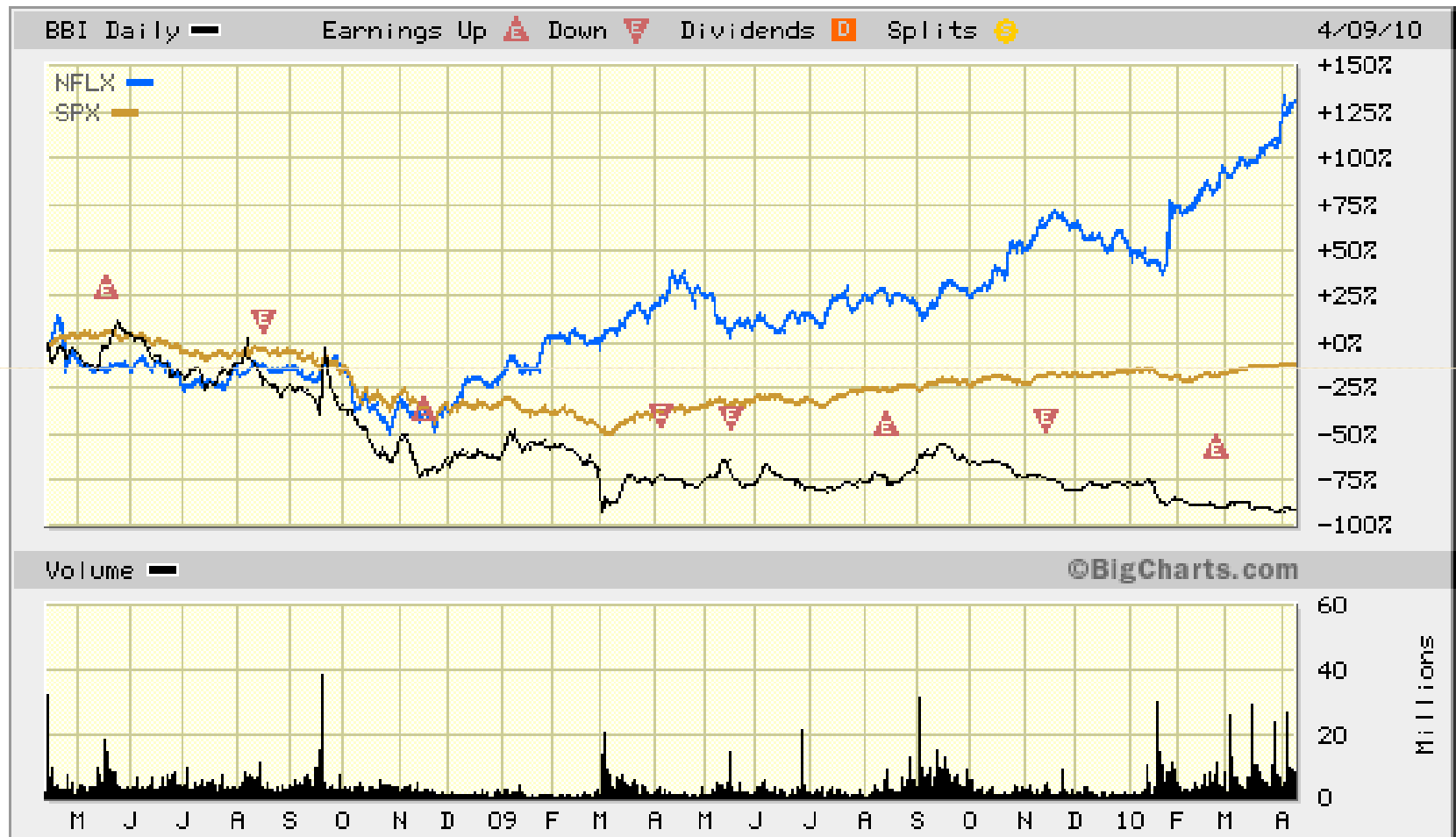
Price: \$.29 per share

Pitch: Long

Relevant History

- 1985 – Blockbuster founded
- 1997 – Netflix goes public
- 2003-2005 – Blockbuster loses 75% of market value
- 2007 – Hire new CEO, Jim Keyes (former 7-Eleven CEO)
- 2010 – Bankruptcy possible?

Stock History (two years)



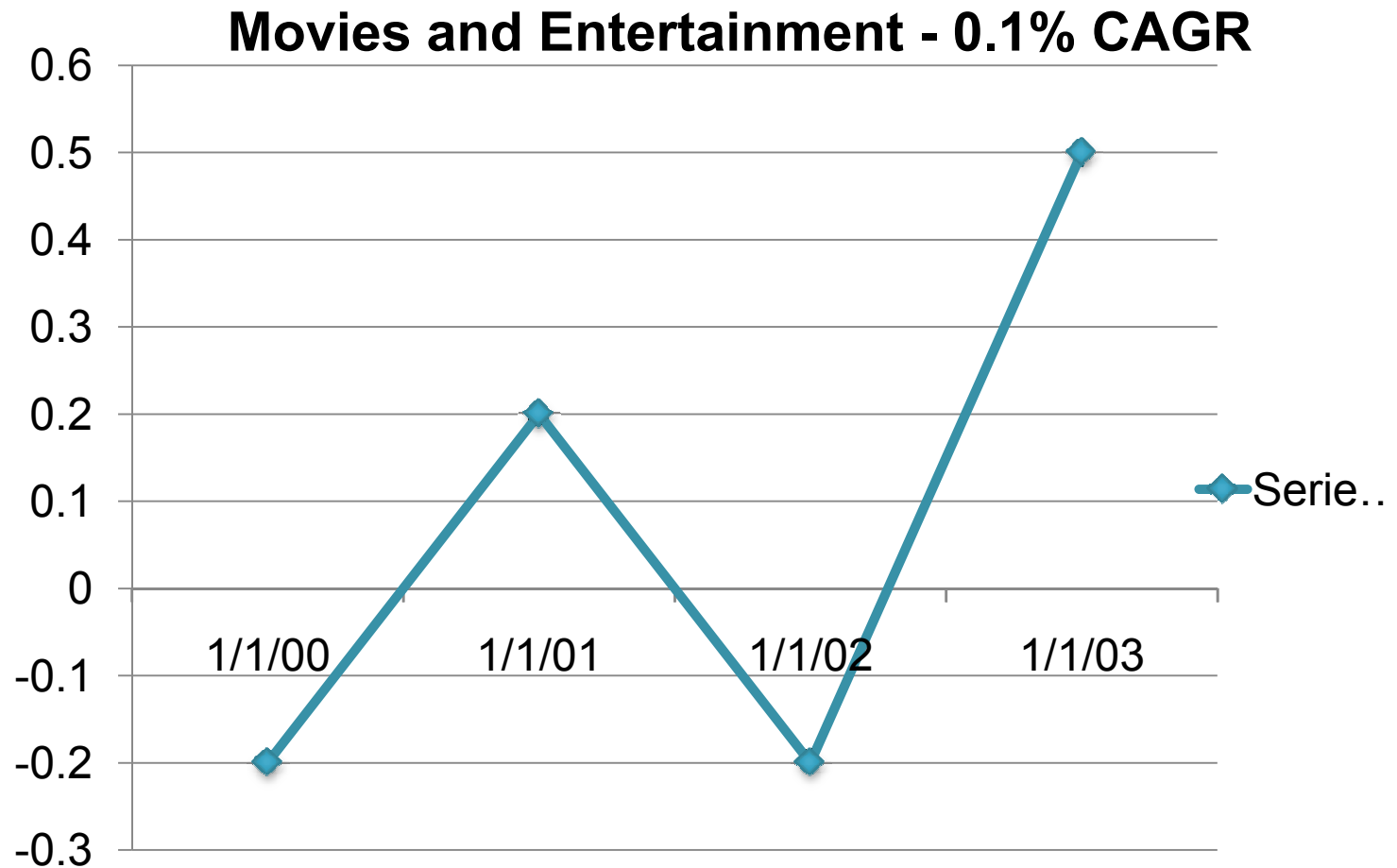
Outline

- Industry Overview
- Problems with Blockbuster, Inc.
- Why Blockbuster?
- Conclusion
- Questions & Answers

Industry Overview

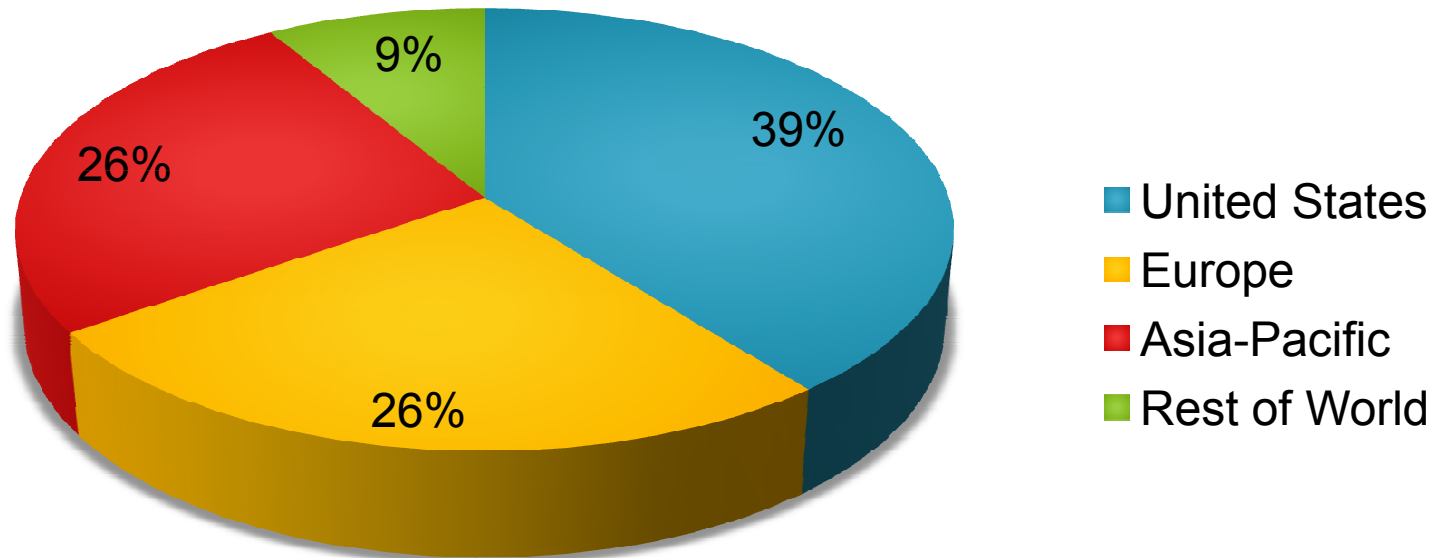


Industry Growth



Industry Segmentation

Movies and Entertainment



Industry Trends in Rental Sector

- Long-term: Channel shift from physical to digital distribution
- Segmented Market: Redbox – kiosks, Netflix – by-mail, Hulu – streaming
- Industry rental revenues expected to decline (piracy and “cheaper” channels)



Industry Channels in Rental Sector

- In-store
- By-mail
- Kiosks
- Digital Devices (computer, phone, etc)

Problems with Blockbuster



Management Folly

- Blockbuster held onto their **old B&M** strategy for too long allowing competitors to take market share.
- The failure of this strategy led to the firing of John Antioco, the previous CEO.
- Moreover, Antioco was offered Netflix at the beginning of their ascension at cheap prices and chose not to acquire them.



Downgraded Default Ratings

- In August 2008 Moody's downgraded Blockbusters probability of default rating to Caa1 from B3. Compounded with the unfavorable market conditions, this will have an adverse effect on Blockbuster's financial position.

Increased Competition

- With the rise of Netflix and Redbox, Blockbuster faces stiff competition when vying for the market share it previously had.



Juggling Act

- Blockbuster is simultaneously attempting to restructure its debt while pursuing opportunities in multi-channel distribution (OnDemand, Online, B&M, and Kiosks). Some analysts see this as a bad strategy, claiming Blockbuster should liberally pursue the digital channel.

Carl Icahn

- Carl Icahn recently decreased his ownership of Blockbuster to 3.5% from around 5%.



PHOTO: SARAH A. FRIEDMAN

Balance Sheet - Assets

Assets	2009	2008
Current Assets	1,060.0	1,258.6
Property & Equipment	249.4	406.0
Deferred Income Tax	114.6	124.3
Intangibles, net	7.7	11.5
Goodwill	-	-
Restricted Cash	58.5	-
Other Assets	48.1	16.0
Total	1, 538.3	2,154.5

Balance Sheet - Liabilities

Liabilities	2009	2008
Current Liabilities	934.8	1,253.4
Long-Term Debt	836.0	583.0
Lease Obligations	19.9	28.3
Other Liabilities	61.9	75.5
Total	1,852.6	1,940.2

Shareholder's Equity makes up the balance.

Blockbuster Summary

Last Trade	.287	Days Range	N/A – N/A
Trade Time	Apr 13	52wk Range	0.24 – 1.56
Change	0.00%	Volume	
Previous Close	.287	Avg Volume (3m)	7.8 Million
Open	N/A	Market Cap	60.17 Million
Bid	N/A	P/E (ttm)	N/A
Ask	N/A	EPS (ttm)	-2.933
1y Target Est.	0.48	Div & Yield	N/A (N/A)

Why Blockbuster?!

The image is a promotional graphic for the movie 'Sherlock Holmes'. It features the two main characters, Sherlock Holmes and Dr. Watson, in period attire against a cloudy sky. The title 'SHERLOCK HOLMES' is written in a large, stylized font. A blue 'BLOCKBUSTER' logo is overlaid on the bottom left of the poster. Below the poster, a dark blue banner contains the text 'RENT IT WHILE IT'S STILL A NEW RELEASE'. At the bottom, there is a comparison table for rental availability and a 'GET IT' button.

AVAILABLE NOW				GET IT
	✓	X	X	

Analyst Opinion

Wedbush Morgan Securities analyst
Michael Pachter:

"They have three years before they have an issue. They generate enough cash to fully service all of their debt until July 2012. My guess is they'll restructure that debt well before then."

Blockbuster 2010

- Decreasing G&A by 200 million
- Increased rental gross margin (late fees)
- Eliminating 120 million in redundancy
- Reducing advertising by 20 million
- Close stores (445 in 2010)
- Divestiture in Europe (keeping quiet)
- Stronger consumer

Movie Gallery Liquidation

- Movie Gallery is closing 1,000 to 2,700 of its domestic brick & mortar locations, consequently increasing Blockbuster revenue.



Blockbuster's Competitive Advantage

- Warner, Fox, Universal, and others recently agreed to give Blockbuster a 30-45 day head start on the competition.
- 60% of the industries rental/retail business represents new releases during the first 30 days.
- Blockbuster is allowed to sell new releases in all distribution channels except OnDemand.

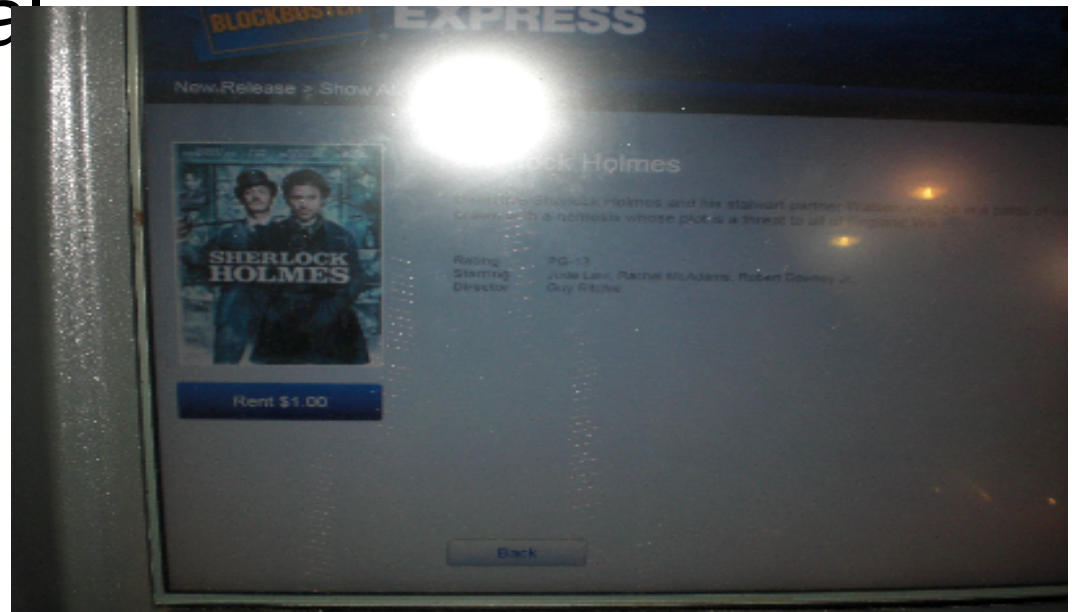
Blockbuster Express

- By the end of 2010, Blockbuster will have around 10,000 kiosks operating domestically.
- Eventually you will be able to upload content onto digital media players, thumb drives, etc.



Blockbuster Express

- Partnering with vending company NCR to produce an alternative to Redbox kiosks.
- \$500 million in revenue by 2011?
- International



Kiosk Competition

- Coinstar does not have the relationships with producers, brand presence, or options that Blockbuster



Coinstar “Maintenance”

- Coinstar representatives go out to the stores randomly for maintenance. Here is an example of Coinstar maintenance



Blockbuster Direct Access

- A la carte mailing service for those consumers who do not want a monthly subscription.
- In-store customers can search Blockbusters 95,000 movie database and get the item delivered to their homes within 3 days

Blockbuster By Mail

- Exact same price structure as Netflix with more options and value.
 - New releases will be available (big revenue source)
 - Ability to exchange movies & games at brick & mortar locations.
 - Offers game rentals, unlike Netflix.
 - In-store exchanges addresses the consumer's

Blockbuster vs. Netflix

	Blockbuster	By-Mail	*Netflix*
	5 in-store exchanges	Mail only	Mail only
Monthly prices (1 DVD)	\$11.99	\$8.99	\$8.99
Monthly Prices (2 DVDs)	\$16.99	\$13.99	\$13.99
Monthly Prices (3 DVDs)	\$19.99	\$16.99	\$16.99
By-returns and rentals	Yes	Yes	Yes
DVDs shipped 1-2 days	Yes	Yes	Yes
Over 95,000 titles	Yes	Yes	Yes
Blu-Ray included in plan	Yes	Yes	Extra Fee
In-store Returns	Yes	Yes	NO!
In-store Exchanges	Yes	Discount	NO!
DVD/Game discounts (club)	Yes	Yes	NO!
Blu-Ray purchase discounts (club)	Yes	Yes	NO!

Blockbuster's Digital Presence

- Blockbuster is expanding into the mobile space. They will be partnering with Motorola, T-mobile, and Samsung



Brick & Mortar

- Blockbuster is transforming their b&m stores, reducing “dusty” inventory by giving store managers choice and adding consumer electronics.
- Management wants the atmosphere to be less sales oriented and more educational, much like an apple store.

Brick & Mortar



Multi-Channel Distribution

- Unlike competitors, Blockbuster offers the consumer an integrated movie & game rental solution, reducing transaction cost. Also, this will help Blockbuster in the long-run because it can offer bundling solutions at cheaper prices than competitors.

Conclusion

- Better value in kiosks and by-mail.
- New stores have more options (Direct Access) and more appeal.
- 30 day window for new releases.
- Multi-channel solution for a highly segmented market helps consumer.
- Brand recognition
- International presence

Strategy

- Class A and B stock integration?
- Conservative entry (2-3%)
- 2-5 year investment



Q & A