



# AUTOMATED DVD RENTAL STORE ECONOMICS

March 2006

# The case

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200 automated stores opened in 24 months

4 competitors:

- Movie Express: Technovideo distributor
- Videoself: standard store same as technovideo
- Cinematic: standard store same as technovideo
- Nikovideo: established reseller of POS and ATM kiosks. Sold 100 DVD dispensers in 12 months

Reasons for growth:

- Established positive business case early on (pilot store)
- Financing easily available for small business
- Densely populated area with plenty of small retail floors available
- Large student population – good renters
- Inclement winter weather – good home entertainment market
- Aggressive pricing – \$1.00 rental (6 hours)

## Canada – Returns presented to prospects

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Canadian \$

Total investment required	\$120,000 - \$150,000
Total cash outlay required*	\$40,000 - \$60,000
Expected income or revenue	Year 1: \$140,000 - \$150,000 Year 2: \$160,000 - \$170,000
Expected net profit**	Year 1 \$35,000 - \$45,000 Year 2 \$60,000 - \$70,000
Expected return on investment -	24 - 30 months

Business potentially cash flow positive after 2-3 months

\* Includes:

cash down on equipment financing  
initial inventory  
working capital  
store construction and finishing)

\*\* Based on 5 year depreciation schedule with 10% cash down

# Operating revenues model

The following case is hypothetical and does not represent a guarantee of future results

	Worst Case		Expected		Best Case	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
Number of client cards sold daily	4.00	2.00	5.00	2.50	6.00	3.00
Number of client cards sold annually	1,460	730	1,825	913	2,190	1,095
Intial Recharge Value	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00	\$20.00
<i>Revenue from new clients</i>	<i>\$29,200</i>	<i>\$14,600</i>	<i>\$36,500</i>	<i>\$18,250</i>	<i>\$43,800</i>	<i>\$21,900</i>
Average rental price	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50	\$2.50
Annual number of rentals by clients	24	24	30	30	36	36
<i>Revenue from client recharges</i>	<i>\$58,400</i>	<i>\$29,200</i>	<i>\$100,375</i>	<i>\$50,188</i>	<i>\$153,300</i>	<i>\$76,650</i>
<b><i>Revenue from new clients</i></b>	<b><i>\$87,600</i></b>	<b><i>\$43,800</i></b>	<b><i>\$136,875</i></b>	<b><i>\$68,438</i></b>	<b><i>\$197,100</i></b>	<b><i>\$98,550</i></b>
<i>Revenue from old client recharges</i>		<b><i>\$61,320</i></b>		<b><i>\$95,813</i></b>		<b><i>\$137,970</i></b>
<b>Total Revenue</b>	<b>\$87,600</b>	<b>\$105,120</b>	<b>\$136,875</b>	<b>\$164,250</b>	<b>\$197,100</b>	<b>\$236,520</b>
Starting members	-	1,022	-	1,278	-	1,533
new members	1,460	730	1,825	913	2,190	1,095
Lost members	438	526	548	657	657	788
Ending members	1,022	1,226	1,278	1,533	1,533	1,840
<b>Average members</b>	<b>511</b>	<b>1,124</b>	<b>639</b>	<b>1,405</b>	<b>767</b>	<b>1,686</b>
Churn factor		30%		30%		30%
Daily transactions*	34	74	53	116	76	166

\* Average number of members \* annual number of rentals per members / 365 days

# Operating revenues model

The following case is hypothetical and does not represent a guarantee of future results

	Worst Case		Base case		Best Case	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
<b>Revenue</b>	<b>87,600</b>	<b>105,120</b>	<b>136,875</b>	<b>164,250</b>	<b>197,100</b>	<b>236,520</b>
Used DVD sales	4,380	5,256	6,844	8,213	9,855	11,826
Vending Machine Revenue	1,752	2,102	2,738	3,285	3,942	4,730
	93,732	112,478	146,456	175,748	210,897	253,076
New release purchases	21,900	26,280	34,219	41,063	49,275	59,130
Rental space	18,000	18,000	24,000	24,000	30,000	30,000
Credit Card fees	1,875	2,250	2,929	3,515	4,218	5,062
Utilities, phone, Internet, Security	3,600	3,600	3,600	3,600	3,600	3,600
Insurance	1,800	1,800	1,800	1,800	1,800	1,800
Others	750	750	1,000	1,000	1,200	1,400
Advertising / Promotions	10,000	5,000	10,000	5,000	10,000	5,000
Database Subscription	1,200	1,200	1,200	1,200	1,200	1,200
Maintenance contract	0	3,600	0	3,600	0	3,600
Website Hosting	0	700	0	700	0	700
Accessories (bardcodes)	60	270	150	450	225	450
Accessories (box)	88	250	88	625	250	750
Accessories (Membership cards)		1,380	833	1,643	1,015	2,008
Personnel costs (if needed)	23,400	14,400	23,400	14,400	23,400	14,400
Expense Subtotal	82,672	79,480	103,218	102,595	126,183	129,099
<b>EBITA</b>	<b>11,060</b>	<b>32,999</b>	<b>43,238</b>	<b>73,153</b>	<b>84,714</b>	<b>123,977</b>

## PERSONNEL COST

Hours/Day	Wage Rate	\$10.00	Hours/Month
12	month 1	3,600 \$	360
8	month 2-4	7,200 \$	240
6	month 5-6	3,600 \$	180
5	month 7-12	9,000 \$	150
Total 1st year		23,400 \$	2340
4	month 13-24		120
Total 2nd year		14,400 \$	1440