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Executive Summary

- Sirius XM Satellite Radio is a growing and extremely successful radio broadcasting company that provides services all across the world.
- The 12 month trading range of Sirius XM Radio is \$2.68 - \$4.18 in the stock market
- Sirius XM currently maintains EPS of \$0.55 and a Dividend Payout Rate of 9.09%

[Sirius XM Annual Reports](#) (2012 Annual Report)

Introduction



- James E. Meyer, CEO
- Home office is located in New York City, New York
- Fiscal year ended December 31, 2012
- Sirius XM Radio is the world's largest radio broadcaster
 - 25.6 million subscribers
 - Commercial-free music, sports, news, and entertainment
 - Available via satellite, Apple products, and Android devices
 - Available for installation in all major automaker vehicles
- Services provided across America
 - More than 2 million Canadian subscribers

[SiriusXM Corporate Overview](#)

Sirius XM Audit Report

- Financial statements audited and reported by KPMG LLP



The financial statements reviewed by KPMG LLP conclude that all the material presented in the financial reports are fair and represent the financial position of Sirius XM fairly in accordance to the U.S. generally accepted accounting principles.

[SiriusXM Annual Reports](#) (2012 10-K report p.46)

Sirius XM in the Stock Market

- Current Price: \$3.77 (SIRI)
- 12 month trading range: \$2.68 - \$4.18
- Dividend: \$0.05 per share
 - Paid on December 28, 2012 - first cash dividend paid to stockholders

❖ *All information is current as of 11/29/2013 1:00PM EST*

[Yahoo! Finance: Sirius XM Radio Inc. \(SIRI\)](#)

[Sirius XM Annual Reports](#) (2012 10-K report, “2012 Dividend” p.19)

Sirius XM Industry & Competitors

The radio broadcasting industry...

- Broadcasting stations, networks and syndicates
- Transmit audio through AM, FM, and Satellite radio channels

Major companies and competitors...

- Sirius XM Radio Inc.
- CBS Corporation
- CC Media Holdings Inc.
- Pandora Media

Analysts see both rain and shine in the industry's future. While increased demand in advertising supports growth, free online radio (e.g. iTunes Radio, Pandora) should shrink the demand for the services of 'pay for subscription' radio.

[IBIS World: Radio Broadcasting in the US](#)

Industry Situation & Future Plans

Stock and Dividend Situation

- As of December 31, 2012, 143,243,000 shares of common stock are available for future grants
*Based upon the “2009 Long-Term Stock Incentive Plan”
- No future intention of declaring recurring dividends on common stock
- Current ability to pay dividends is limited by covenants under debt agreements

Future Expense Projections:

- Interest Expense: expected to decrease due to debt retirements, redemptions and repurchases
- Depreciation and Amortization Expenses: expected to increase because of new products and projects
- General and Administrative Expenses: expected to increase as a result of enhanced information technology costs, along with increases in personnel
- Engineering, Design, and Development Expenses: expected to increase due to newly developed products

Other Plans:

- A new bonus program, for the CEO and next five most highly compensated executives, may be adopted to promote achievement of financial goals
- New generation of chip sets and products are expected to be released
- As of December 31, 2012, a new in-orbit satellite is expected to launch sometime in the near future

Sirius XM: Income Statement

Income Statement	2012	2011	2010
Revenue	\$3,402,040	\$3,014,524	\$2,816,992
Gross Profit	\$474,468	\$441,195	\$47,675
Income from Operations	\$872,025	\$676,117	\$465,414
Net Income	\$3,472,702	\$426,961	\$43,055
New Subscribers	2,007,512	1,701,860	1,418,206
Monthly Revenue per Subscriber	\$12.00	\$11.58	\$11.73
Subscriber Acquisition Cost	\$54.00	\$55.00	\$59.00
Free Cash Flow	\$709,446	\$415,742	\$210,481
Adjusted EBITDA	\$920,343	\$731,018	\$626,288

Income Statement (Common Size Format)	2012	2011	2010
Revenue	100%	100%	100%
Gross Profit	86%	86%	98%
Net Income	14%	14%	2%

Sirius XM: Income Statement

Changes in accounts...

- Free Cash Flow: Increased by 70% ('11-'12) and 98% ('10-'11)
- Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA): Increased by 26% ('11-'12) and 17% ('10-'11)

Other notes...

- Sirius XM relies heavily on “Non-GAAP” financial performance measures to measure the company, set operational goals, and to determine performance based compensation.
- Free Cash Flow is used by executives to evaluate cash generated from operations and helps in determining long-term financial stability
- Increase in Cash Flow was driven by greater Net Cash provided by operating activities from improved operating performance and higher collections from subscribers.
- Increased EBITDA suggests a very strong improvement of the profitability of Sirius XM Radio

Sirius XM: Balance Sheet

	2012	2011
Current Assets:		
Cash and cash equivalents	\$520,945	\$773,990
Accounts receivable, net	106,142	101,705
Receivables from distributors	104,425	84,817
Inventory, net	25,337	36,711
Prepaid expenses	122,157	125,967
Related party current assets	13,167	14,702
Deferred tax asset	923,972	132,727
Other current assets	12,037	6,335
Total current assets	\$1,828,182	\$1,276,954
Property and equipment, net	1,571,922	1,673,919
Long-term restricted investments	3,999	3,973
Deferred financing fees, net	38,677	42,046
Intangible assets, net	2,519,610	2,573,638
Goodwill	1,815,365	1,834,856
Related party long-term assets	44,954	54,953
Long-term deferred tax asset	1,219,256	0
Other long-term assets	12,878	35,657
Total assets	\$9,054,843	\$7,495,996

	2012	2011
Current Liabilities:		
Accounts payable and accrued expenses	\$587,652	\$543,193
Accrued interest	33,954	70,405
Current portion of deferred revenue	1,474,138	1,333,965
Current portion of deferred credit	207,854	284,108
Current maturities of long-term debt	4,234	1,623
Related party current liabilities	6,756	14,302
Total current liabilities	\$2,314,588	\$2,247,596
Deferred revenue	159,501	198,135
Deferred credit on executor contracts	5,175	218,199
Long-term debt	2,222,080	2,683,563
Long-term related party debt	208,906	328,788
Deferred tax liability	69	1,011,084
Related party long-term liabilities	18,966	21,741
Other long-term liabilities	85,993	82,745
Total Liabilities	\$5,015,278	\$6,791,851
Total stockholders' equity	\$4,039,565	\$704,145
Total liabilities & stockholders' equity	\$9,054,843	\$7,495,996

Common Form Balance Sheet

	2012	2011
Current Assets:		
Cash and cash equivalents	5.75%	10.33%
Accounts receivable, net	1.17%	1.36%
Receivables from distributors	1.15%	1.13%
Inventory, net	0.28%	0.49%
Prepaid expenses	1.35%	1.68%
Related party current assets	0.15%	0.20%
Deferred tax asset	10.20%	1.77%
Other current assets	0.13%	0.08%
Total current assets	20.19%	17.04%
Property and equipment, net	17.36%	22.33%
Long-term restricted investments	0.04%	0.05%
Deferred financing fees, net	0.43%	0.56%
Intangible assets ,net	27.83%	34.33%
Goodwill	20.05%	24.48%
Related party long-term assets	0.50%	0.73%
Long-term deferred tax asset	13.47%	0.00%
Other long-term assets	0.14%	0.48%
Total assets	100.00%	100.00%

	2012	2011
Current Liabilities:		
Accounts payable and accrued expenses	6.49%	7.25%
Accrued interest	0.37%	0.94%
Current portion of deferred revenue	16.28%	17.80%
Current portion of deferred credit	2.30%	3.79%
Current maturities of long-term debt	0.05%	0.02%
Related party current liabilities	0.07%	0.19%
Total current liabilities	25.56%	29.98%
Deferred revenue	1.76%	2.64%
Deferred credit on executor contracts	0.06%	2.91%
Long-term debt	24.54%	35.80%
Long-term related party debt	2.31%	4.39%
Deferred tax liability	0.00%	13.49%
Related party long-term liabilities	0.21%	0.29%
Other long-term liabilities	0.95%	1.10%
Total Liabilities	55.39%	90.61%
Total stockholders' equity	44.61%	9.39%
Total liabilities & stockholders' equity	100%	100%

Sirius XM: Balance Sheet

Changes in accounts from 2011 to 2012...

- Total Assets: Increase of \$1,558,847
- Total Liabilities : Decrease of \$1,776,573
- Cash & Cash Equivalent Accounts: Decrease of \$253,045
- Deferred Tax Asset: Increase of \$791,245
- Long Term Deferred Tax Asset: Increase of \$1,219,256

Other changes from 2011 to 2012...

- Long term debt decrease of \$461,483
- Stockholders' Equity increase of nearly 575%
- Largest change: Deferred Tax Liability decrease of \$1,011,015

The financial position of Sirius XM Radio seems to be improving based on increasing assets, decreasing liabilities, and an extremely large increase of total stockholders' equity.

[SiriusXM Annual Reports](#) (2012 10-K report, F-5)

Sirius XM: Statement of Cash Flows

	2012	2011	2010
Cash Flows	\$806,765	\$543,630	\$512,895
Net Income	\$3,472,702	\$426,961	\$43,055
Overall Cash	\$586,691	\$773,990	\$520,945

- Sirius XM Radio is not growing through investing activities. Additions to property, plant and equipment have decreased every year beginning in 2010.
- Sirius XM's primary source of financing comes from the issuing of bonds. The company is also amidst a \$4 billion share buyback program. A majority of this buyback is from Liberty Media Corporation, a major holder of Sirius XM's convertible bonds.

[SiriusXM Annual Reports](#) (2012 10-K report, F-7)

[Seeking Alpha](#) "Why Sirius XM's \$1.875 Convertible Bonds Will Be Exchanged"

Sirius XM Accounting Policies

❖ Financial Statements audited and reported by KPMG LLP

- Cash & Cash Equivalents
 - Cash
 - Money Market Funds
 - In-transit credit card receipts
 - Highly liquid investments (maturity of 3 months or less)
- Investments
 - Investments are considered with exercisable influence but not control
 - Investments are accounted to Equity Method of Accounting
 - Equity Method Investment held in Sirius XM Canada
 - Proportionate share of earnings (losses) are recognized as “Other Income (Expense)”
 - Follows ASC 350, *Goodwill*

SiriusXM Annual Reports (2012 10-K Report, “Summary of Significant Accounting Policies” p.F-9)

Financial Analysis: Liquidity

Liquidity Ratios		
	2012	2011
Working Capital	\$486,406	\$970,642
Current Ratio	0.790	0.568
Acid-test Ratio	0.746	0.958
Average Self-Pay Monthly Churn	1.90%	1.90%

Accounts used for Liquidity Ratios

Current Assets	\$1,828,182	\$1,276,954
Current Liabilities	\$2,314,588	\$2,247,596
Cash	\$520,945	\$773,990
A/R	\$106,142	\$101,705
Current Liabilities minus deferred income	\$840,450	\$913,631

Liquidity

- Liquidity ratios are improving due to...
 - Increased current ratio
 - Nearly 50% increase in amount of working capital
- Decreased acid-test ratio attributed to Sirius XM holding less cash and working with the share-buyback program
- Sirius XM executives believe best use of cash is to invest in their own company
 - Great optimism makes it easy to buy into Sirius XM

Note: As Sirius XM provides a service and not a “real material product”, some of the liquidity ratios did not apply.

Financial Analysis: Profitability

Sirius XM Radio	2012	2011
Net Income (a)	\$3,472,702	\$426,961
Total Assets (b)	\$9,054,843	\$7,495,996
Shareholders' Equity (c)	\$4,039,565	\$704,145
Return on Assets (a/b)	0.384	0.057
Return on Equity (a/c)	0.860	.606

Pandora Media, Inc.	2013	2012
Return on Assets	0.081	0.013
Return on Equity	.158	.164

- Sirius XM profitability ratios are much higher than Pandora Media, a close competitor.
- Sirius XM return on assets increased greatly from 2011 to 2012.

*Pandora Media, Inc. (est. 2000) is relatively new to the market compared to Sirius XM Radio (est. 1990)

[Sirius XM Annual Reports](#) (2012 10-K report)

[Pandora Financial Information](#) (2012 and 2013 10-K Form)

Financial Analysis: Solvency

	2012	2011	2010
Times Interest Earned	1.788	1.447	.161
Debt to Equity	1.24	9.65	-

- Overall solvency is improving
- Debt to Equity ratio has decreased
 - 2011-2012: 678% decrease
- Times Interest Earned ratio has increased
 - 2010-2011: 798% increase
 - 2011-2012: 23% increase
- Shareholders' equity has increased over the past 3 years
- Total liabilities has decreased over the past 3 years

[Sirius XM Annual Reports](#) (2012 10-K report, “Consolidated Statements of Comprehensive Income”, F-4)

Financial Analysis: Market Strength

	2012	2011	2010
Earnings per Share	\$0.55	\$0.07	\$0.01
Price-Earnings Ratio	5.25	26	163
Dividend Payout Ratio	9.09%	-	-
Dividend Yield Ratio	1.73%	-	-

*First dividend paid in 2012

[Yahoo! Finance: Sirius XM Radio \(Historical Prices\)](#)

[Sirius XM Annual Reports](#) (2012 10-K report, “Notes to Consolidated Financial Statements, 4-14)

Sirius XM: Market Strength

- Earnings per share has increased from \$0.01 (2010) to \$0.07 (2011) and \$0.55 (2012).
 - In determining stock price, EPS is one of the most important factors
 - Increases over the past three years suggests increasing profitability
- Price earnings ratio has decreased from 163 (2010) to 26 (2011) and 5.25 (2012).
 - Potential growth is decreasing as Sirius XM becomes more established in the market

Sirius XM: Overall Performance

Sirius XM is in a very strong position within the industry. Recovering from a low in 2008 when their stock price was trading around \$0.10, shares are now trading at \$3.77 per share and have appreciated over 30% YTD.

The strongest competition for Sirius XM comes from Pandora, who went public in 2011 and has had their stock price gain over 200% YTD...Although Pandora has been garnering many headlines this year, they are not turning profits and are still a very immature company.

Sirius operates in a very niche market with so much of their production dependent on the auto industry. As the auto industry continues to make a comeback from the recession, there is no reason why Sirius XM wouldn't continue to churn out better and better numbers.

Recommendation

- Increased company value each of the past three years
- Increased EBITDA shows improvement and increased profitability
- Year to year, assets and stockholders' equity are increasing, liabilities are decreasing
- EPS has increased from \$0.01 in 2010 to \$0.55 in 2012

*A predicted decrease in the price-earnings ratio suggests that the rapid rate of growth for Sirius XM is declining, but still growing nonetheless.

Overall Recommendation: BUY

Sources

- [SiriusXM Corporate Overview](#)
- [Yahoo! Finance: Sirius XM Radio Inc. \(SIRI\)](#)
- [Sirius XM Annual Reports](#) (2012 Annual Report & 2012 10-K report)
- [IBIS World: Radio Broadcasting in the US](#)
- [Seeking Alpha](#) "Why Sirius XM's \$1.875 Convertible Bonds Will Be Exchanged"
- [Pandora Financial Information](#) (2012 and 2013 10-K Form)