

XM Satellite Radio

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Theses

1. Tremendous market size.
2. Rapid growth.
3. XM is totally awesome
4. Minimal competition.
5. Ideal time to buy.



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Industry Overview



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How it Works

- XM



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The Market - Car

- Over 200 million registered vehicles in the US.
 - 16-17 million new cars sold every year
 - 6-7 million aftermarket car radios sold every year
 - Americans spend an average of 2 hours a day in their cars.



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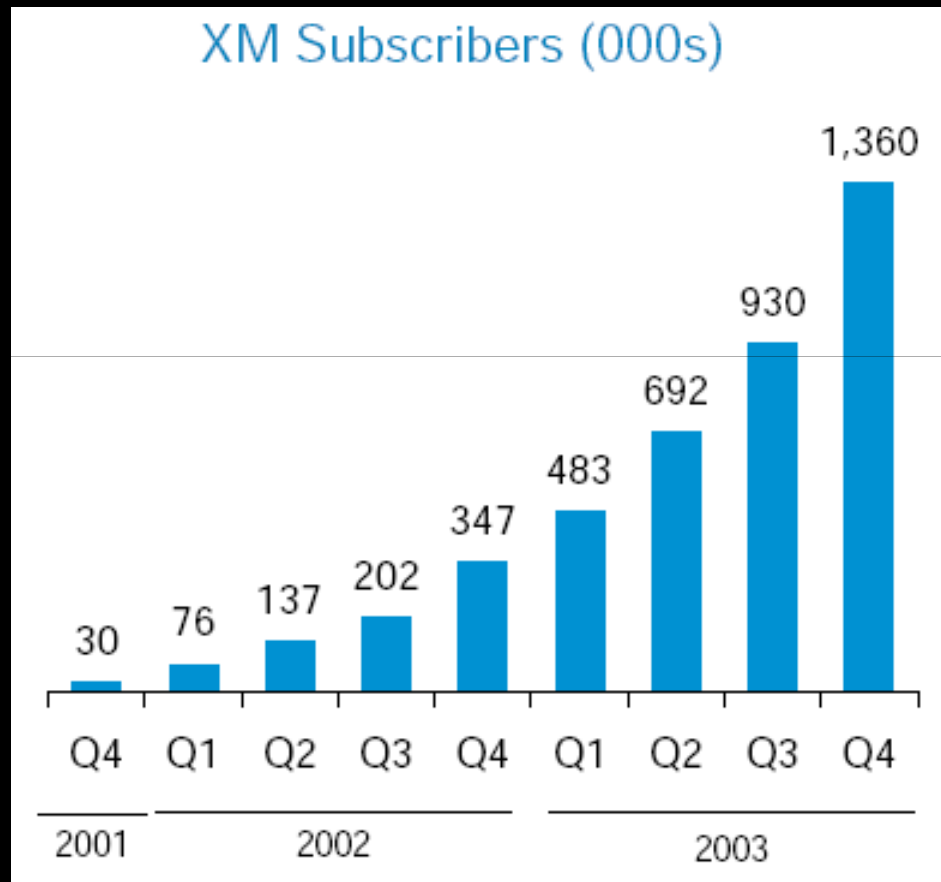
The Market - Home

- Over 100 million households in the US
 - Over 10 million home stereo systems are sold every year
 - Over 39 million radios are sold every year.
- Over 75% of the US pop. >12 listen to radio on a daily basis.
 - 94% tune in on a weekly basis



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Growth



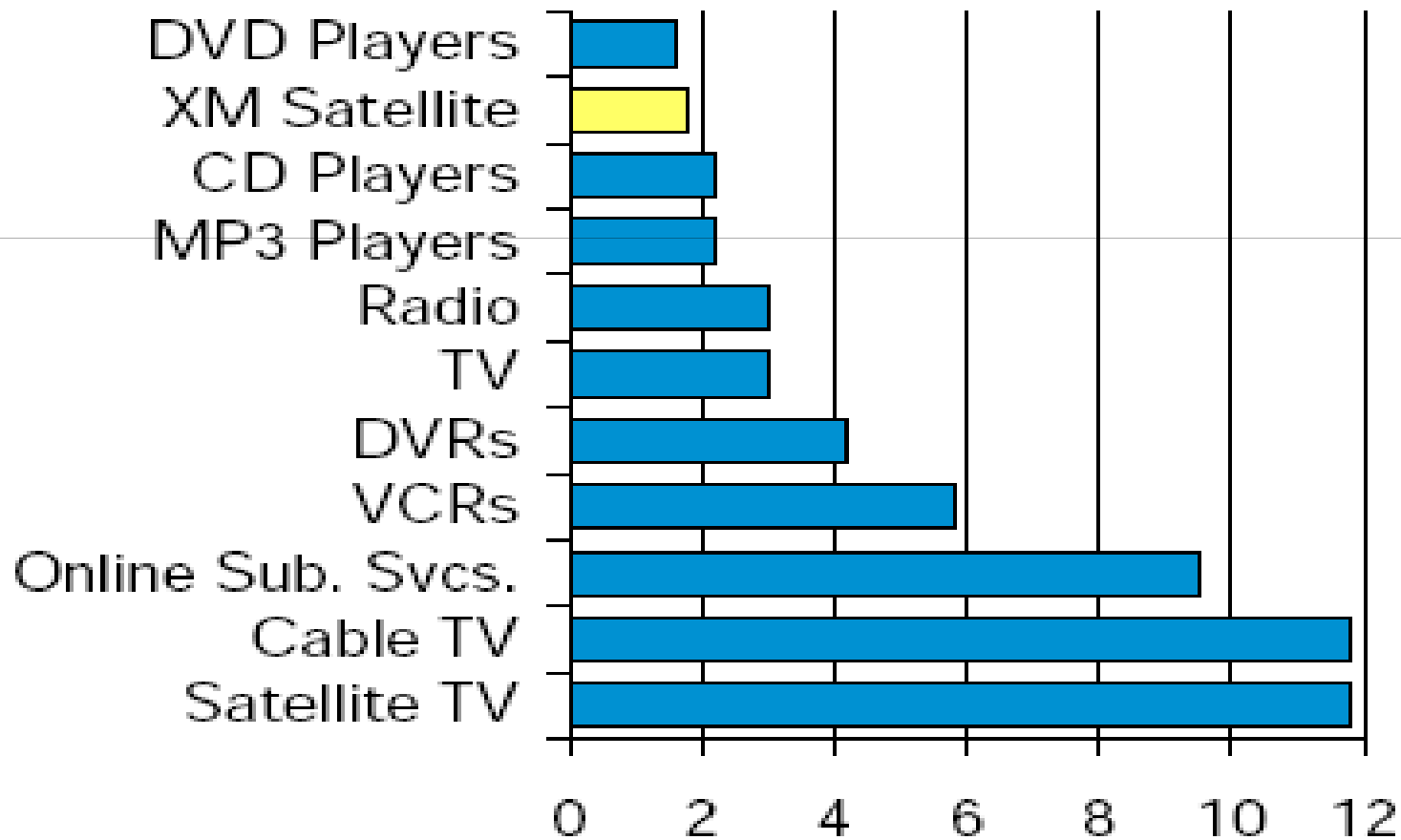
- 2003 subscriber growth/quarter
 - Q1: 136,000 13%
 - Q2: 209,000 22%
 - Q3: 238,000 23%
 - Q4: 430,000 42%



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Growth

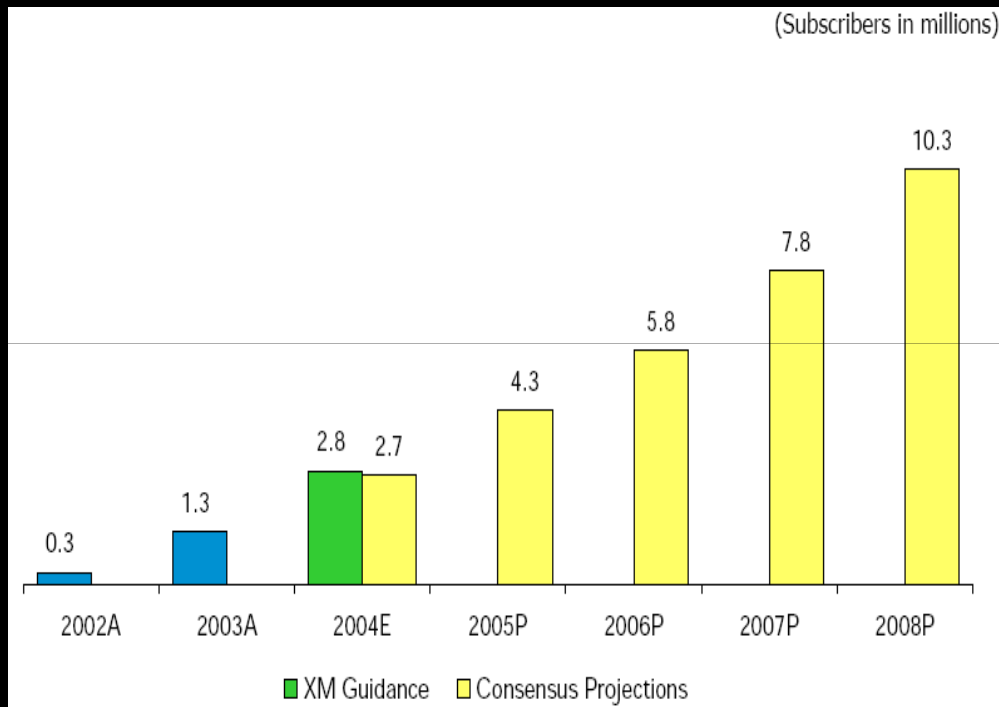
Years to 1 MM Users⁽¹⁾





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Growth

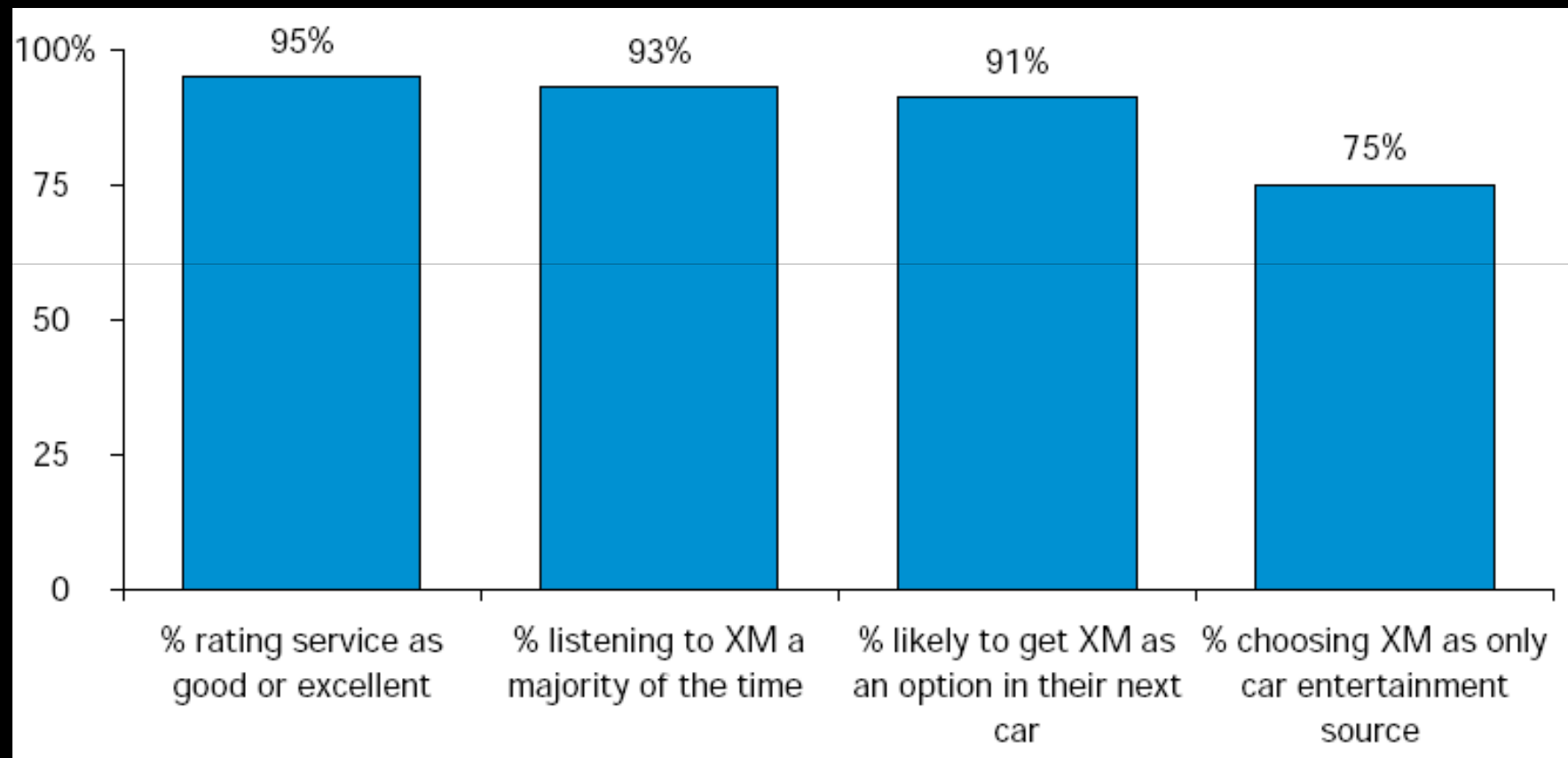


- **Future growth expectations**
 - 2003: 1.3 mil. 333% (a)
 - 2004: 2.7 mil. 108%
 - 2005: 4.3 mil. 59%
 - 2006: 5.8 mil. 35%
 - 2007: 7.8 mil. 35%
 - 2008: 10.3 mil. 32%



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Customers love XM!

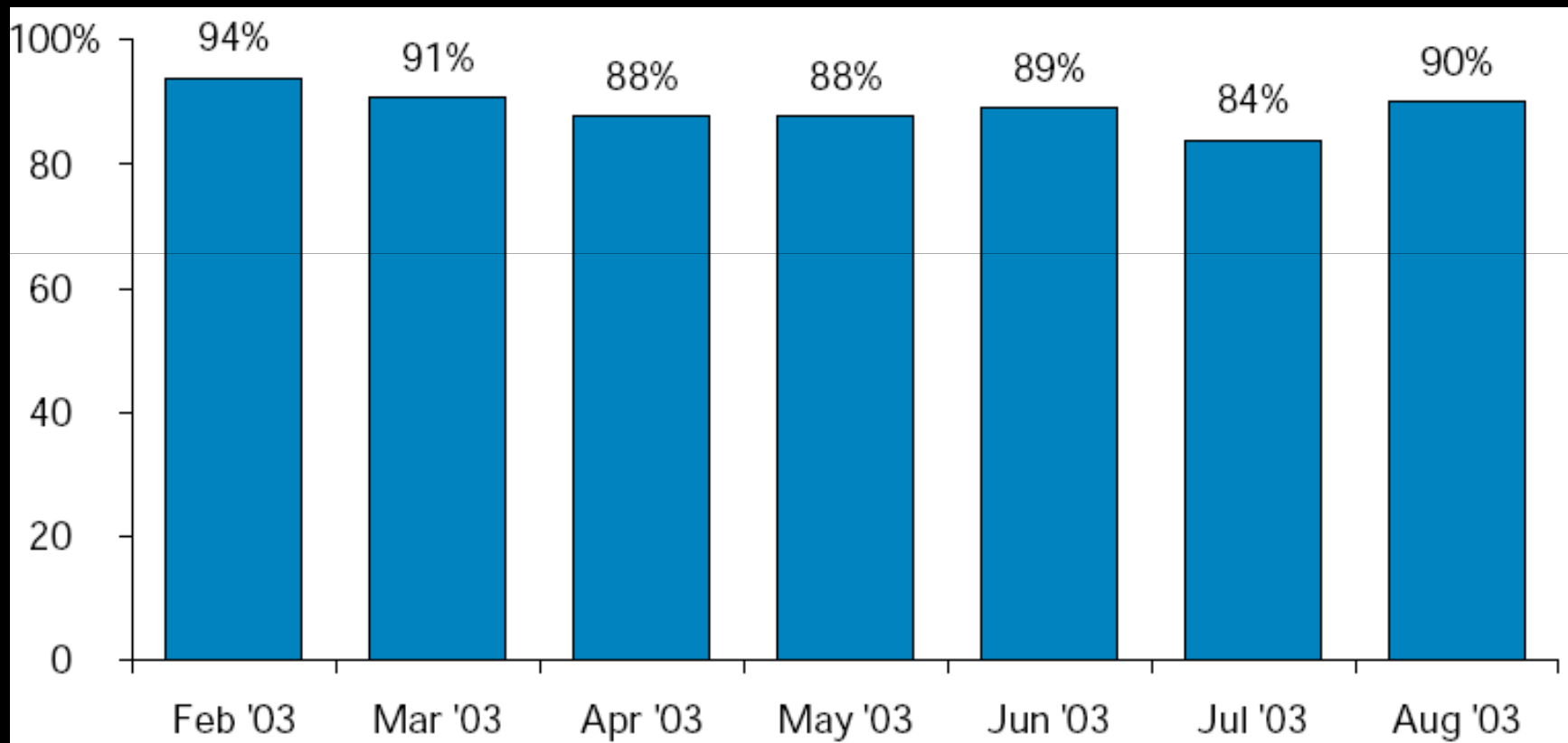




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XM Love cont'd

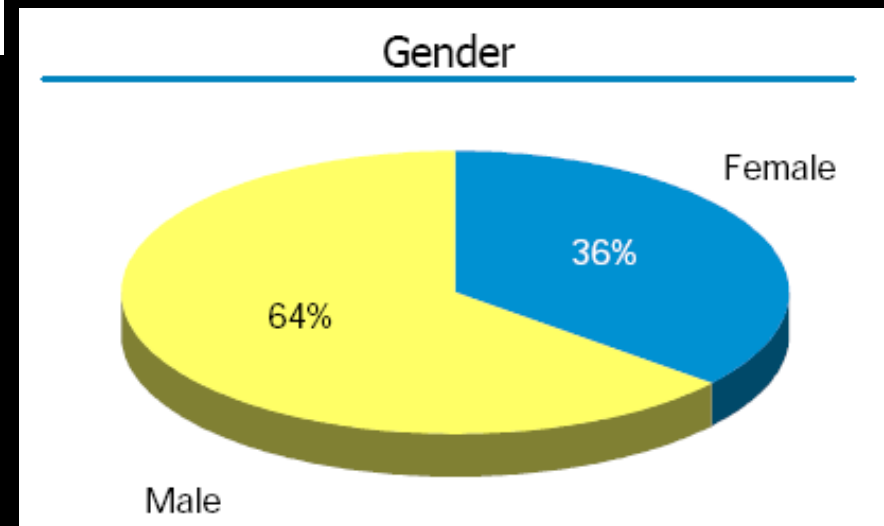
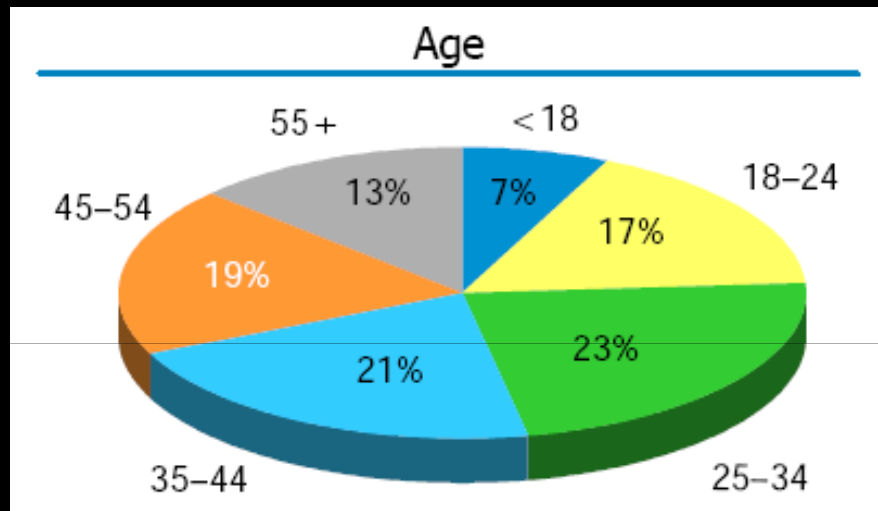
Customers Recommend XM to Friends and Family:





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Customer Profile





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Expanding Markets

- Trucking
 - The perfect customer!
- Airlines
 - Jet Blue
- Marine
 - Coverage up to 150 miles off shore
- Rental Cars
 - Give renters a “taste” of what XM is all about.



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How to get XM

- 3 Ways:
 - Factory installed
 - Aftermarket car audio
 - Home audio systems



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Strong OEM partners



BUICK



Cadillac

GMC



SATURN



PONTIAC

CHEVROLET





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GM Stats

	Model Year 2003 (Sep–Aug)	Model Year 2004 (Sep–Aug)	Model Year 2005 (Sep–Aug)
Total GM Vehicles	5.00M	5.00M	5.00M
Models Offering XM	25 (55%)	43 (75%)	50+ (90%+)
XM Enabled Vehicles	2.70M	3.70M	4.40M+
Dealer Order Rate	15%+	20%+	25%+
XM Equipped Vehicles	400K	800K	1,100K
Penetration	70%	70%	70%
Activations	280K	560K	770K



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Aftermarket Retailers





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Portable Units

- Offer versatility
 - 1 subscription
 - Many locations
 - < \$149

In the car...



In the home...



On the go!



- XM Ready
 - An entire radio system for \$119.95!
 - No professional installation necessary.





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Time to Rock!
(demonstration)



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Razor Blade Effect?

- Radios may get to the point where they are practically given away.
 - Such as razors
- Then the consumer subscribes monthly.
 - Such as the blades
- A ways down the road, but still a possibility.



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Possible Problem

- Razor blade effect works as long as the razor company makes the blades as well.
 - Not the case with satellite radio!
 - Manufacturers want to be subsidized
 - They get the initial equipment revenue.
 - They also want a piece of the subscriber revenue.
 - » Could be a future problem between XM and manufacturer.



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Competition?





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Comparison

The Sirius logo, consisting of the word 'SIRIUS' in blue capital letters followed by a white silhouette of a dog's head, all on a dark grey rectangular background.

SIRIUS

- 101 total channels
 - 61 Music
 - Commercial Free
 - 40 Talk/Sports
- \$12.95/month
 - \$6.95 Family
- 261,000 subs



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- 121 Channels
 - 68 Music
 - Commercial Free
 - 32 Talk/Sports
 - 21 Traffic/Weather
 - Available in April
- \$9.99/month
 - \$6.95 Family
- 1,360,000 subs



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Differences in Channels

- Sports!
 - Sirius: 8 channels
 - Contract to broadcast all NFL games
 - 40 NBA & 40 NHL per week
 - XM: 5 Channels
 - ESPN, FOX, Sporting News
 - 
 - The most popular sport in the US!



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VAR

- **Best Buy**
 - Employee said he sells “way more xm”
 - Sales are still going strong after Christmas.
 - Nascar channel seemed to be popular
- **Circuit City**
 - Employee sold 150 XM units to 3 Sirius units since he began working.
 - Highly recommends XM
 - Likes the appearance of XM’s portable units more than Sirius’
 - Satellite radio is here to stay!



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VAR

- Crutchfield

- Says both providers are comparable in programming and quality.
- XM has been more popular.
 - Price
 - Appearance
 - Slightly older

- Stereotypes

- Focus more on the installation and not the sale.
- Install many more XM.



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VAR

- Wal-Mart
 - Only sell XM
 - Little shelf space
 - Hard to find
 - Employee said, “We don’t sell many.”
 - Not very helpful with the product.
- This is a problem!
 - If people want satellite radio, they’ll go to a specialty store.
 - Especially since the prices are the same.
 - Wasting \$?
 - They do say that it Wal-Mart helps in the more rural areas.



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Financial Analysis



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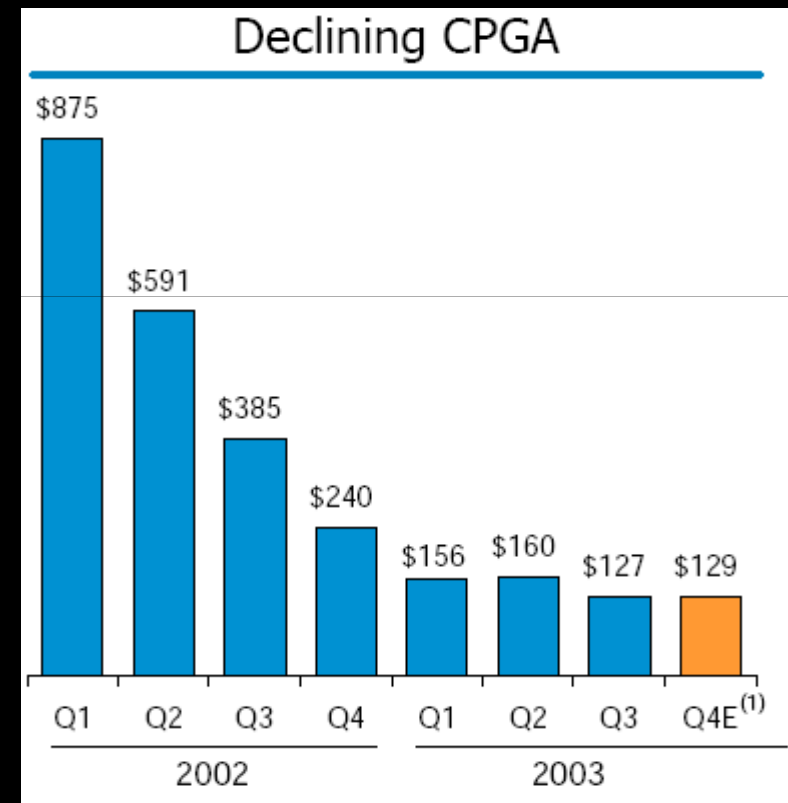
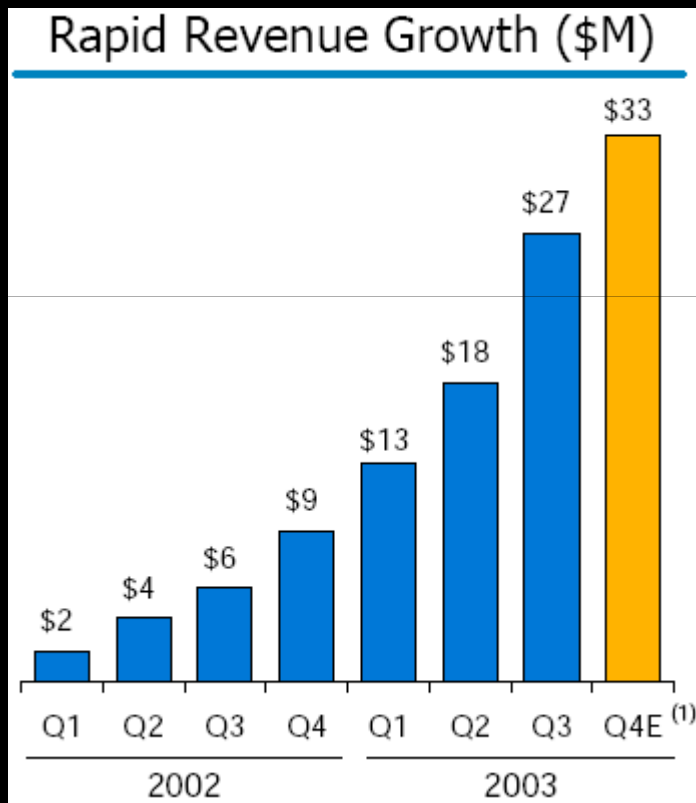
Attractive Model

- Recurring subscriber revenue
- High contribution margin
- Stable fixed costs
- Declining subscriber acquisition costs (sac)



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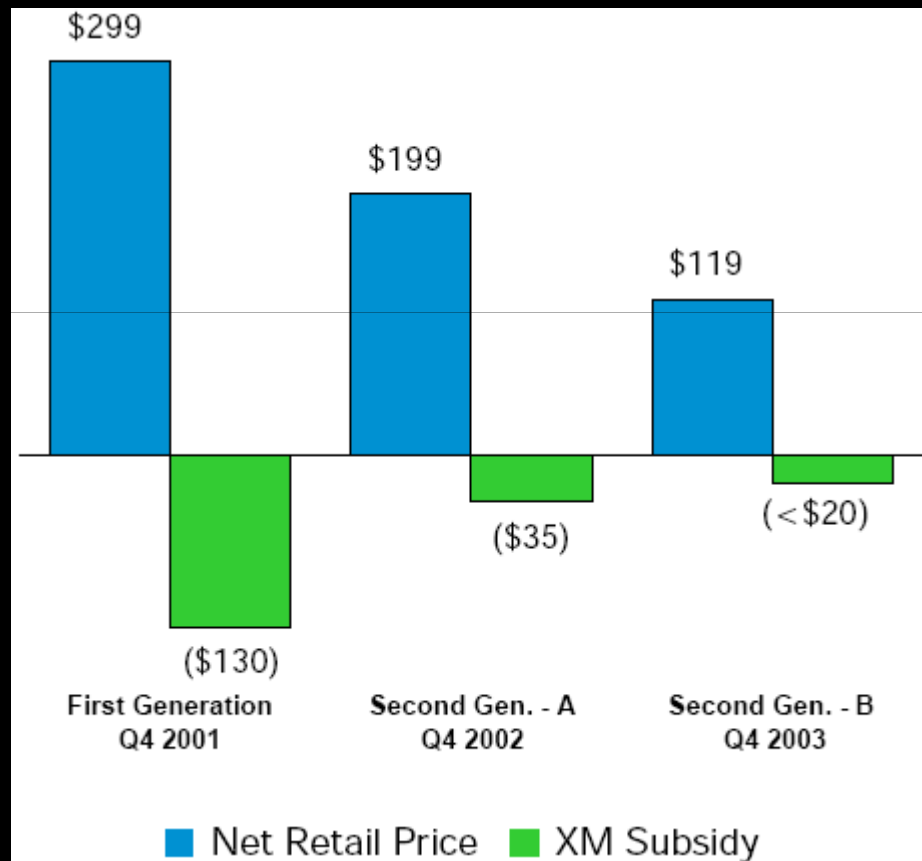
Declining Costs





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Decreasing Production Costs

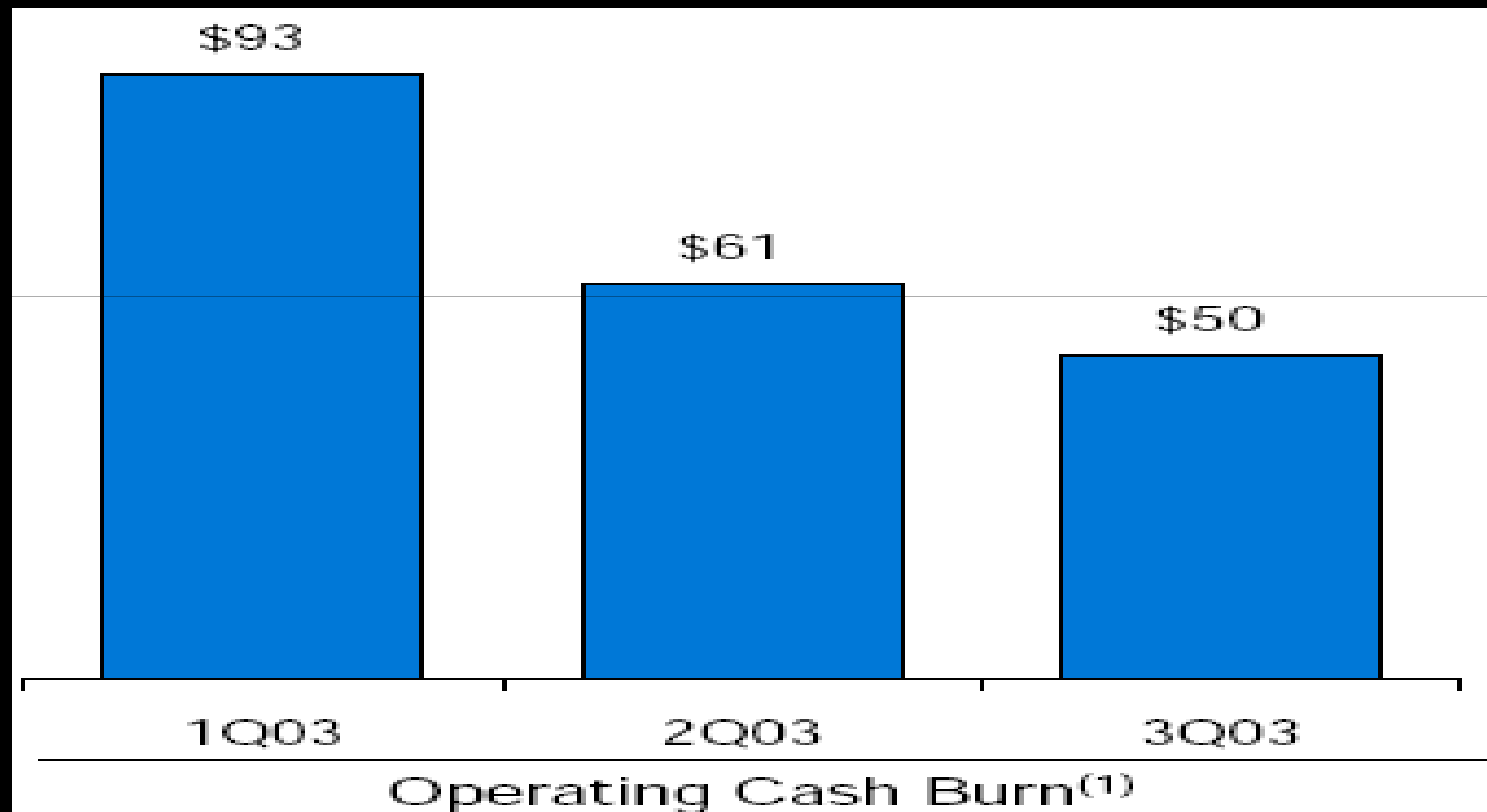


- Lower costs to consumer
- Lower subsidy for XM
- 3rd & 4th generation chipsets are under development



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Declining Cash Burn

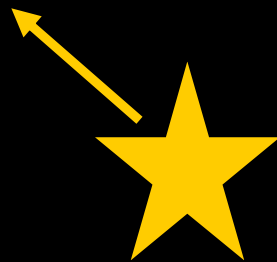




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Reducing Debt

- 2003
 - Eliminated \$246 mil in debt and preferred stock
 - Eliminated \$430 mil in future interest, dividends, and principal payments.
 - Achieved with the issue of 38 mil shares.
 - Avoided 30 million shares of incremental future dilution.





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Reducing Debt

- 2004
 - Eliminated \$200 mil of debt and preferred stock.
 - Eliminate over \$300 mil of future interest, dividends, and principal payments.
 - All while only issuing 7 mil new shares
 - Avoided 5.3 mil shares of future dilution.



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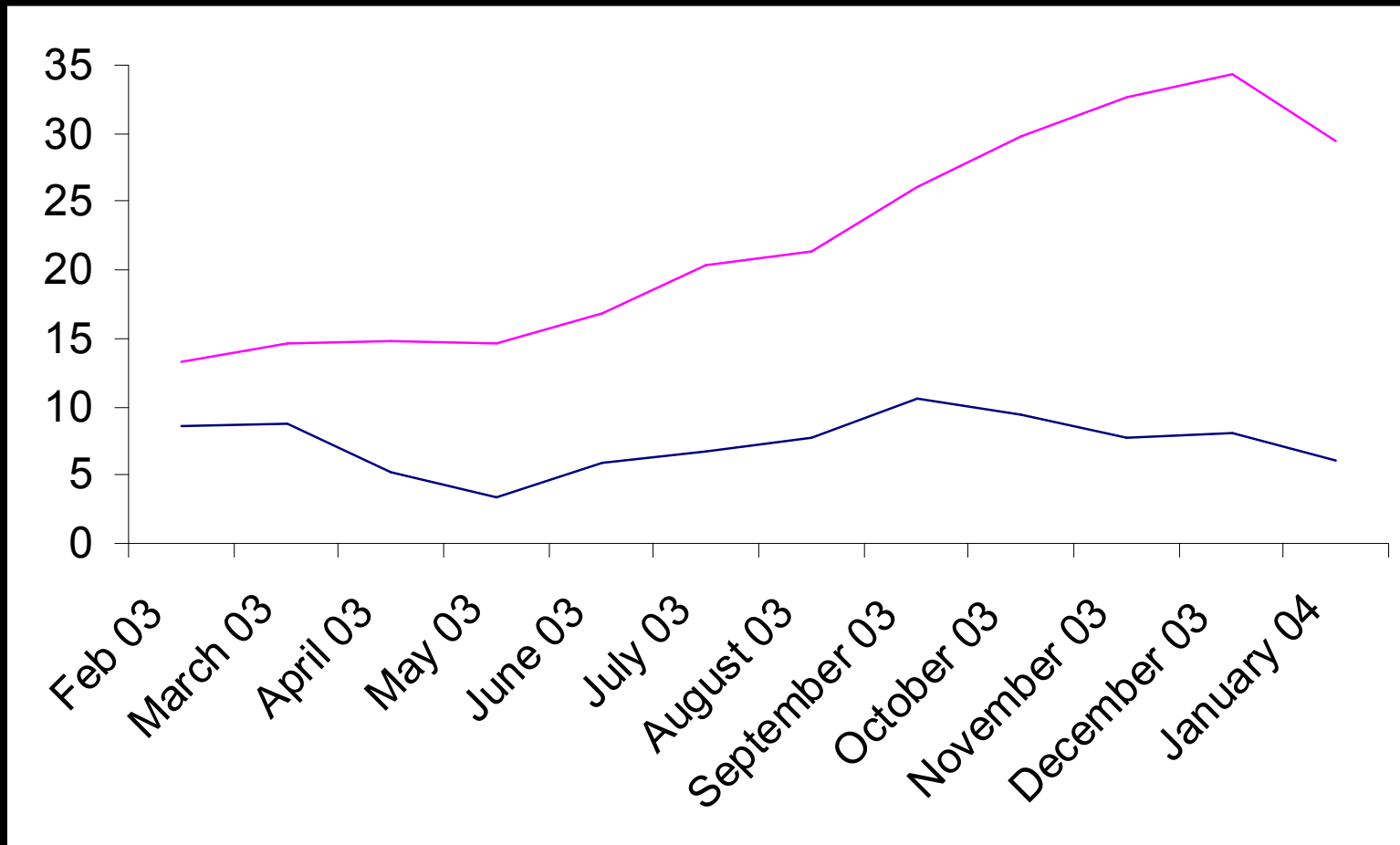
Side Note

- Sirius shares outstanding:
 - 998.22 million
 - \$2.78 share price
 - \$2.78 mil market cap
- XM shares outstanding:
 - 149.36 million
 - \$22.68 share price
 - \$3.39 mil market cap



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Short Interest





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Risks

- Subscriber numbers do not hit expectations.
- Prolonged cash flow breakeven.
 - Estimated early 2005
- Satellite degradation.
- Sirius subsidizes manufacturers more.
 - Increases their suppliers and market share.
- Consumer confusion.
 - They tend to walk away when confused.



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Highlights

- Tremendous market
- Rapidly growing subscriber base
- State of the art technology
- Strong financial position
- Little share dilution



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Questions?