

Sirius XM Holdings (SIRI)

\$7.17 (As of 02/03/20)

Price Target (6-12 Months): **\$7.50**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: C

Summary

Sirius XM's shares have outperformed the industry in a year's time. The company's subscriber base expansion is expected to continue owing to a strong content portfolio. Moreover, availability on Amazon Echo, Alexa and Google assistant is expected to expand subscriber base further. Additionally, strength in traditional audio advertising, backed by video programmatic and engagement-based video as well as the expansion of off-platform efforts and fee generated on the AdsWizz platform is expected to drive Pandora's ad revenues. However, higher royalty expenses along with increasing music licensing costs hurt profitability. Further, the company is facing significant competition in the music streaming market, which is currently dominated by the likes of Spotify and Apple.

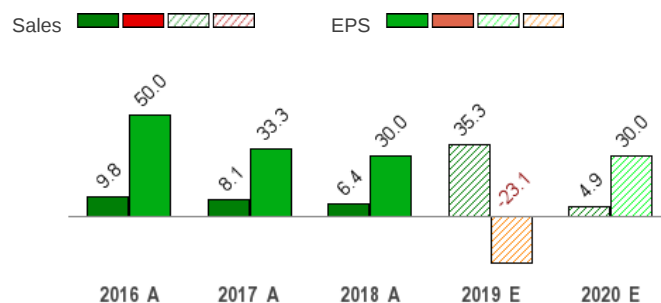
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$7.30 - \$5.23
20 Day Average Volume (sh)	17,863,636
Market Cap	\$31.7 B
YTD Price Change	0.3%
Beta	1.04
Dividend / Div Yld	\$0.05 / 0.7%
Industry	Broadcast Radio and Television
Zacks Industry Rank	Top 44% (111 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-16.7%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	35.9
P/E F1	27.6
PEG F1	3.0
P/S TTM	4.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,944 E	2,032 E	2,068 E	2,108 E	8,195 E
2019	1,744 A	1,977 A	2,011 A	2,030 E	7,810 E
2018	1,375 A	1,432 A	1,467 A	1,496 A	5,771 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.05 E	\$0.06 E	\$0.07 E	\$0.07 E	\$0.26 E
2019	\$0.03 A	\$0.06 A	\$0.05 A	\$0.06 E	\$0.20 E
2018	\$0.06 A	\$0.06 A	\$0.07 A	\$0.06 A	\$0.26 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/03/2020. The reports text is as of 02/04/2020.

Overview

Headquartered in New York, Sirius XM Holdings Inc. was founded in 1990. The radio broadcasting company creates and broadcasts a variety of content such as commercial-free music, premier sports and live events, news and comedy and exclusive talk and entertainment shows. Sirius XM provides radio services to users in the United States and Canada.

Notably, the company's services are primarily distributed through its app and website, automakers, and other connected devices like Amazon Echo, Fire TV products and Apple TV.

As of Dec 31, 2018, Liberty Media beneficially owned approximately 73% of Sirius XM's common stock.

In 2018, the company reported revenues of \$5.77 billion, which increased 6.4% from the year-ago period.

The company has four revenue generating segments:

Subscriber Revenues: This segment consists of subscription fees, activation fees and the effects of rebates. The segment generated 79.6% of total revenues in 2018.

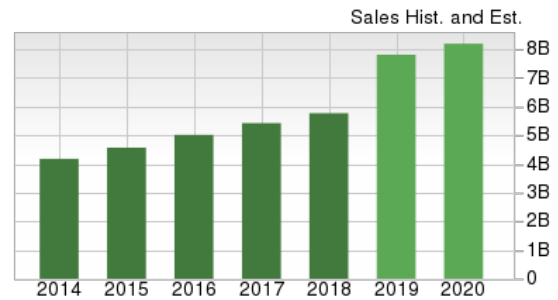
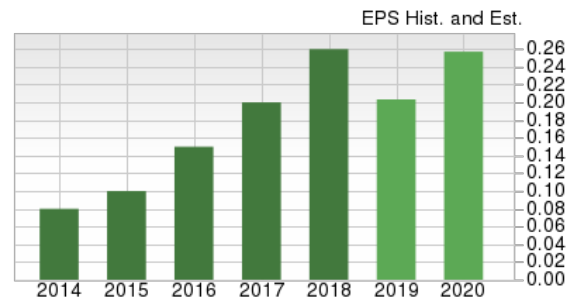
Advertising Revenues: This segment includes the sale of advertisements on the company's non-music channels, net of agency fees and accounted for 3.2% of total revenues in 2018.

Equipment Revenues: This segment includes revenues and royalties from the sale of Sirius and XM radios, components and accessories, accounting for 2.7% of total revenues in 2018.

Music royalty fees and other revenues: This segment offers ancillary services, such as Backseat TV, data and weather services. The segment generated 14.5% of total revenues in 2018.

On Feb 1, 2019, Sirius XM successfully completed the acquisition of Pandora, making it the world's largest audio entertainment company. Notably, the combined entity has more than 100 million listeners in North America of which 40 million constitute self-paying subscribers and the rest are trailers and ad-based listeners.

Sirius XM faces significant competition from Apple and Spotify in the U.S. market. Both these companies dominate the streaming space as they together command the highest market share. Additionally, key initiatives taken by both Apple and Spotify to gain competitive advantage may hurt Sirius XM's user base expansion levels.



Reasons To Buy:

- ▲ The acquisition of Pandora helped Sirius XM become the world's largest audio entertainment company, as it significantly expanded the latter's listener base. The combined entity has more than 100 million listeners in North America, of which 40 million are expected to be self-paying subscribers and the rest "trailers and ad-based listeners." Sirius XM expects cost synergies from the acquisition to be more than \$75 million/year. The combination of Sirius XM's subscription-based model and Pandora's ad-based model along with diversified content offerings and the ability to cross sell content across both the platforms is expected to attract users, advertisers and content creators to Sirius XM's platform. Additionally, Sirius XM is also looking to create unique audio packages to boost user engagement levels. The company is also looking to bank on its strength from in-vehicles services and Pandora's out-of-the-vehicle market to boost subscriber growth.
- ▲ Sirius XM's healthy relationships with automakers is expected to boost the adoption of its service. The company inked a long-term agreement with Toyota Motors to extend the deal till 2028, starting with 2020 Toyota models. Notably, the extended partnership was primarily due to increased demand for Sirius XM services from Toyota's dealers and customers. Sirius XM also benefits from the increasing adoption of its 360L platform with General Motors. Moreover, the company extended connected vehicle agreements with Nissan and Infiniti till 2022. Earlier, Sirius XM extended agreements with original equipment manufacturers (OEMs) like Audi, Mazda, Land Rover, Mercedes-Benz, Jaguar and Volvo to install its services in their vehicles by 2020.
- ▲ Sirius XM, which has strong relationships with automobile OEMs, is looking to provide real-time vehicle services to its users. The company in partnership with Visa introduced an in-vehicle payment solution that allows car users to easily make and manage purchases such as paying for coffee, parking and movie tickets among others. Users can "activate and authenticate" payments with their Visa accounts by using biometric authentication like touchscreen commands and voice. Earlier, with the acquisition of automatic labs, Sirius XM introduced an aftermarket solution to enable smart services at a few dealership locations. Notably, the dealers will offer car buyers three years of free crash alert as well as free premium services like roadside assistance for six months. With Sirius XM-enabled radio vehicles increasing on the road, we believe the adoption of its other connected services may also increase owing to agreements with OEMs. At the end of the first quarter, about 119 million vehicles on road were equipped with Sirius XM-enabled radios, up 11% year over year and representing approximately 45% of all the cars in the country currently.
- ▲ Sirius XM will continue to use smart speakers to penetrate into home. The company's plan to bring additional content and features to Amazon Echo is positive in this regard. Earlier, Sirius XM had partnered with Amazon to provide free access to a few of its subscription packages for existing Echo holders. The company is also looking to partner with other big players in the smart speaker market to expand its reach and user engagement.
- ▲ Sirius XM continues to bolster its content offerings by adding content from all spheres including music, politics, news and sports to its platform. The company added 100 ad free music channels to its platform in first-quarter 2019. The channels are available only to Sirius XM's All Access, Premier subscribers and trail users. Additionally, Sirius XM is creating original content in talk, sports and music in addition to its content to make it available for Pandora users to cross-promote content on both platforms. The addition of channels and strong collection of sports content is expected to help the company boost its subscription revenues.

Pandora acquisition, growing subscriber base, partnership strength and solid content portfolio are key factors contributing to Sirius XM's growth.

Reasons To Sell:

- ▼ Sirius faces intense competition in the streaming space from the likes of Apple and Spotify, which is expected to hurt the top line in the near term. Apple continues to bolster its presence in the music streaming space backed by acquisitions of Shazam and Asaii. Moreover, the company's recent push into the AR market differentiates its music service offerings and AR initiatives. Spotify, the dominant name in the market, is also ramping up its efforts to expand its subscriber base on the back of partnerships with Samsung and Google.
- ▼ High royalty costs are hurting the company's bottom line. Expenses related to revenue share and royalties increased 59.3% year over year in the nine months of 2019 compared with 15% year-over-year growth in 2018. Moreover, growing music licensing costs are a headwind.
- ▼ Moreover, higher engineering, design and development expenses, sales and marketing expenses and transmission cost are expected to keep margins under pressure in the near term. Sirius XM's efforts to increase content offerings to cross-promote content on Pandora and Sirius XM along with its initiatives to expand its services reach is likely to increase expenses in the near term.
- ▼ Sirius XM has a highly leveraged balance sheet, which adds to the risk of investing in the company. As of Sep 30, 2019, the company had total debt of \$7.90 billion compared with \$7.84 billion as of Jun 30, 2019. Notably, the high level of goodwill and intangible assets totaled \$7.36 billion or almost 66.4% of total assets as of Sep 30.

Increasing competition in the streaming space, high royalty costs and leveraged balance sheet are major concerns for the company's top-line growth.

Last Earnings Report

Sirius XM Holdings Q3 Earnings Miss, Revenues Up Y/Y

Sirius XM Holdings reported third-quarter 2019 earnings of 5 cents per share that missed the Zacks Consensus Estimate by a penny and declined 28.6% year over year.

Earnings were negatively impacted by refinancing expenses associated with the company's July redemption of its 6.00% senior notes due 2024.

Total revenues on a reported basis jumped 37.1% year over year to \$2.01 billion and beat the Zacks Consensus Estimate of \$1.98 billion. On a proforma basis, revenues increased 6.7% year over year.

The top line was driven by robust subscriber and advertisement revenues. Subscriber revenues (77.4% of total revenues) grew 16.1% from the year-ago quarter to \$1.56 billion. Advertisement revenues (18.2%) surged 695.7% year over year to \$366 million.

Equipment revenues (2.2% of total revenues) rose 9.8% from the year-ago quarter to \$45 million. Other revenues (2.2% of total revenues) increased 10% from the year-ago quarter to \$44 million.

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	1.51%
EPS Surprise	-16.67%
Quarterly EPS	0.05
Annual EPS (TTM)	0.20

SiriusXM Standalone Details

Sirius XM segment pro-forma revenues were \$1.57 billion, up 6.6% year over year. The increase was driven by 3% growth in subscriber base and 3.1% in ARPU, which was \$13.90.

Sirius XM added 210K net subscribers. Self-pay subscribers increased 4% year over year to 29.637 million. The company added 302K net self-pay subscribers in the reported quarter. However, the company lost paid promotional subscribers due to a decline in shipments from automakers offering paid promotional subscriptions.

Total subscribers were 34.554 million as of Sep 30, 2019, better than 33.693 million as of Sep 30, 2018.

Sirius XM traffic users grew 12% year over year to 9.378 million and Canada subscribers increased 1% to 2.706 million.

Additionally, average self-pay monthly churn rate was 1.7% in the third quarter, down 0.1% year over year.

Subscriber revenues rose 6.3% year over year to \$1.42 billion. Advertising revenues were \$51 million, up 10.9% year over year.

Moreover, Equipment revenues were up 9.8% to \$45 million. Other revenues improved 9.5% year over year to \$46 million.

Pandora Details

Pandora's pro-forma revenues increased 6.9% year over year to \$447 million owing to 7.9% growth in advertising revenues, which totaled \$315 million. Additionally, subscriber revenues grew 4.8% year over year to \$132 million.

Ad revenues were driven by strong third-quarter monetization of \$85 per thousand hours, up 10% year over year.

Management stated that strength in traditional audio advertising, backed by video programmatic and engagement-based video as well as the expansion of off-platform efforts and fees generated on the AdsWizz platform, drove ad revenues.

However, ARPU decreased 3.3% year over year to \$6.46.

Meanwhile, Monthly Active Users (MAUs) were 63.1 million at the end of the reported quarter, down from 68.8 million in the year-ago quarter. Ad-supported listener hours declined 7.5% year over year to 3.32 billion.

Pandora added 33K net self-pay subscribers and exited the third quarter with nearly 6.3 million self-pay subscribers, which included 45K paid promotional subscribers.

Operating Details

In the third quarter, total operating expenses surged 56% year over year to \$1.54 billion.

Revenue share and royalty costs soared 72.6% year over year to \$592 million. Satellite and transmission costs surged 91.7% year over year to \$46 million.

Customer service & billing costs improved 25.3% to \$119 million. Programming & content costs were \$116 million, up 20.8%. Cost of Equipment rose 14.3% to \$8 million.

Engineering, design and development expenses soared 151.6% from the year-ago quarter to \$78 million. Sales and marketing expenses jumped 99.1% to \$233 million.

However, subscriber acquisition costs declined 7.3% year over year to \$101 million.

Adjusted EBITDA increased 12.3% year over year to \$657 million.

Balance Sheet & Cash Flow

As of Sep 30, 2019, cash and cash equivalents were \$90 million compared with \$215 million as of Jun 30, 2019.

Long-term debt as of Sep 30 was \$7.90 billion compared with \$7.84 billion as of Jun 30.

At quarter-end, Sirius XM's debt to adjusted EBITDA ratio was 3.25 times. The company had nearly \$1.7 billion available under its revolving credit facility.

Cash flow from operating activities in third-quarter 2019 was \$544 million compared with \$545 million in second-quarter 2019. Free cash flow was \$465 million in the third quarter compared with \$474 million in the previous quarter.

Sirius XM repurchased shares worth \$464 million in the reported quarter.

2019 Guidance

Revenues, on a pro-forma basis, are expected to be approximately \$7.85 billion for the year. Adjusted EBITDA is expected to be \$2.4 billion. The company anticipates adding almost 1 million Sirius XM self-pay net subscribers.

Free cash flow is expected to be around \$1.625 billion.

Recent News

On Dec 17, Sirius XM announced a tie-up with General Motors to bring SiriusXM with 360L to nearly 1 million Chevrolet, Buick, GMC and Cadillac owners.

On Dec 13, Sirius XM announced exclusive radio broadcast agreement with Rolling Loud, the world's largest Hip-Hop festival brand.

On Dec 4, Sirius XM launched Pandora's redesigned mobile experience available for all listeners after initially rolling out to select users in October. The new features give listeners exposure to Pandora's vast library of on-demand music and podcasts, personalized content recommendations and a wide selection of unique programming across all tiers of service and free ad-supported, Pandora Plus, or Pandora Premium.

SiriusXM also announced a new creative partnership with U2 to launch U2X RADIO, which will include a dedicated SiriusXM channel and exclusive content available only to SiriusXM subscribers and Pandora listeners.

On Dec 2, Sirius XM and UNINTERRUPTED announced the launch of exclusive athlete playlists on Pandora to bring fans closer to their favorite players including LeBron James, Rob Gronkowski, Odell Beckham Jr. and Angel McCoughtry through music.

On Nov 19, Sirius XM and Amazon announced the availability of On Demand library of the former with Amazon Alexa and Echo devices, as well as several third-party devices with Alexa built-in.

On Nov 13, Sirius XM announced that it has expanded the SiriusXM video offering to include new performances, interviews and in-studio moments from more of its acclaimed programming lineup.

Valuation

Sirius XM shares are up 18.5% in the six months period and 19.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 8.6% and 10.5% in the six months period, respectively. Over the past year, the Zacks sub-industry and the sector are up 4.8% and 11.7%, respectively.

The S&P 500 index is up 14.9% in the six months period and 17.8% in the past year.

The stock is currently trading at trailing 12-month EV/EBITDA of 18.44X, which compares to 23.19X for the Zacks sub-industry, 12.4X for the Zacks sector and 11.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.67X and as low as 14.19X, with a 5-year median of 16.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$7.50 price target reflects 28.84X forward 12-month earnings.

The table below shows summary valuation data for SIRI

Valuation Multiples - SIRI					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	18.44	23.19	12.4	11.95
	5-Year High	18.67	32.82	17.76	12.85
	5-Year Low	14.19	18.49	9.29	8.49
	5-Year Median	16.9	23.99	12.4	10.66
P/E F12M	Current	27.36	22.81	19.64	18.5
	5-Year High	34.28	34.44	23.35	19.34
	5-Year Low	19.53	20.5	16.16	15.18
	5-Year Median	26.09	26.29	20.06	17.46
P/S F12M	Current	3.84	7.97	2.25	3.43
	5-Year High	5.83	13.42	3.19	3.43
	5-Year Low	3.03	6.61	1.81	2.54
	5-Year Median	4.33	9.73	2.54	3

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 254)



Top Peers

Apple Inc. (AAPL)	Outperform
E.W. Scripps Company (The) (SSP)	Outperform
AMC Networks Inc. (AMCX)	Neutral
Amazon.com, Inc. (AMZN)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Netflix, Inc. (NFLX)	Neutral
Nexstar Media Group, Inc (NXST)	Neutral
TEGNA Inc. (TGNA)	Neutral

Industry Comparison Industry: Broadcast Radio And Television				Industry Peers		
	SIRI Neutral	X Industry	S&P 500	AAPL Outperform	AMZN Neutral	GOOGL Neutral
VGM Score	D	-	-	B	A	B
Market Cap	31.72 B	657.00 M	23.66 B	1,350.54 B	997.71 B	1,022.53 B
# of Analysts	6	2	13	12	13	15
Dividend Yield	0.74%	0.00%	1.82%	1.00%	0.00%	0.00%
Value Score	F	-	-	D	D	C
Cash/Price	0.00	0.16	0.04	0.08	0.06	0.12
EV/EBITDA	19.31	5.63	13.87	17.07	25.86	20.82
PEG Ratio	3.00	0.76	1.97	2.14	2.62	1.62
Price/Book (P/B)	NA	1.26	3.24	15.09	16.08	5.25
Price/Cash Flow (P/CF)	21.14	4.34	13.40	20.23	29.89	24.29
P/E (F1)	27.69	9.09	18.48	22.47	70.68	26.99
Price/Sales (P/S)	4.39	0.93	2.60	5.05	3.56	6.32
Earnings Yield	3.63%	9.03%	5.40%	4.45%	1.41%	3.71%
Debt/Equity	-11.11	1.33	0.72	1.04	0.38	0.07
Cash Flow (\$/share)	0.34	2.14	6.92	15.26	67.05	61.03
Growth Score	C	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	24.90%	6.99%	10.80%	9.54%	110.19%	23.64%
Proj. EPS Growth (F1/F0)	26.46%	22.41%	7.46%	15.54%	23.23%	11.75%
Curr. Cash Flow Growth	22.74%	18.86%	10.59%	-3.74%	31.33%	44.22%
Hist. Cash Flow Growth (3-5 yrs)	14.02%	15.14%	8.55%	7.40%	49.26%	21.13%
Current Ratio	0.29	1.80	1.21	1.60	1.10	3.78
Debt/Capital	NA%	57.73%	42.91%	50.97%	27.39%	6.59%
Net Margin	12.76%	8.83%	11.76%	21.49%	4.13%	21.22%
Return on Equity	-129.67%	8.23%	17.24%	60.19%	21.07%	18.94%
Sales/Assets	0.69	0.38	0.55	0.80	1.41	0.63
Proj. Sales Growth (F1/F0)	5.28%	5.63%	4.22%	9.25%	19.18%	18.96%
Momentum Score	C	-	-	A	A	A
Daily Price Chg	1.41%	0.72%	0.67%	-0.27%	-0.23%	3.48%
1 Week Price Chg	-0.56%	-3.49%	-2.60%	-2.76%	7.90%	-2.28%
4 Week Price Chg	0.70%	-0.36%	-0.76%	2.96%	5.32%	6.07%
12 Week Price Chg	3.02%	-3.18%	2.84%	17.72%	13.13%	14.20%
52 Week Price Chg	18.71%	-9.30%	13.93%	80.24%	22.71%	29.89%
20 Day Average Volume	17,863,636	61,892	1,915,782	33,906,876	3,942,783	1,621,394
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	4.45%	8.58%	0.22%
(F1) EPS Est 4 week change	-2.17%	0.00%	0.00%	4.89%	8.10%	0.46%
(F1) EPS Est 12 week change	-1.64%	0.00%	-0.13%	5.19%	6.79%	0.47%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	5.83%	5.78%	0.07%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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